



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

Final Report

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Operations to the Southern  
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2019)**

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Directorate-General for Economic and Financial Affairs

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## **Abbreviations**

AA	Association Agreement
ADB	African Development Bank
AFD	Agence Française de Développement
ANETI	Agence National pour l'Emploi et le Travail Indépendant-Tunisie
APII	Agence de Promotion de l'Industrie et de l'innovation- Tunisie
ARP	Assemblée des Représentants du Peuple-Tunisie
BEE	Business Environment and Entrepreneurship
CAD	Current Account Deficit
CBJ	Central Bank of Jordan
CBT	Central Bank of Tunisia
CdC	Cour des Comptes- Tunisie
CEPEX	Centre de Promotion des Exportations-Tunisie
CPF	Country Partnership Framework
CRES	Centre de Recherches et d'Etudes Sociales-Tunisie
CSO	Civil Society Organisations
DCFTA	Deep and Comprehensive Free Trade Area
DG ECFIN	Directorate-General for Economic and Financial Affairs
DG NEAR	Directorate-General for Neighbourhood and Enlargement Negotiations
DPF	Development Policy Financing
DPL	Development Policy Loan
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEAS	European External Action Service
EFF	Extended Facility Fund
EIB	European Investment Bank
ENI	European Neighbourhood Instrument
ENP	European Neighbouring Policy
EP	European Parliament
EU	European Union
EUD OPS	European Delegations
EUR	Euro
FDI	Foreign Direct Investment
Foreign Direct Investment	
GCC	Gulf Countries Council
GDP	Growth Domestic Product
GIZ	Gesellschaft für Internationale Zusammenarbeit - Germany

GNI Gross National Income  
GSC Gulf States Countries  
ICI Investment, Competitiveness and Inclusion  
IDA International Development Association-The World Bank  
ILO International Labour Organization  
IMF International Monetary Fund  
IBRD International Bank for Reconstruction and Development  
JOD Jordanian Dinar  
KfW Kreditanstalt für Wiederaufbau -Germany  
MENA Middle East North Africa  
MFA Macro Financial Assistance  
MDiCI Ministry of Development, Investment and International cooperation-Tunisia  
MOPIC Ministry of Planning and International Cooperation-Jordan  
MoU Memorandum of Understanding  
NAF National Aid Fund-Jordan  
NEPCO National Electric Power Company  
NDICI Neighbourhood, Development and International Cooperation Instrument  
NIF Neighbourhood Investment Facility  
NUR National Unified Registry-Jordan  
OECD Organisation for Economic Cooperation and Development  
PEFA Public Expenditure and Financial Accountability  
PFM Public Finance Management  
PNAFN Programme National d'Aide aux Familles Nécessiteuses  
SOE State-Owned Enterprises  
SSN Social Safety Nets  
TIA Tunisian Investment Agency-Tunisia  
UNDP United Nations Development Programme  
UNICEF United Nations Children's Fund  
US US Dollar  
VAT Value-Added Tax  
WB The World Bank



## **Abstract**

In 2016, the European parliament and the Council approved a EUR 500m MFA to Tunisia and a EUR 200m MFA to Jordan. While the MFA to Tunisia was triggered by domestic security threats and the repercussions of the crisis in Libya both of which heavily impacted on the Tunisian economy; the MFA to Jordan was approved in the context of regional insecurity and the Syrian refugee influx which continued to pose a major challenge to an already struggling economy. The two operations shared a common objective of helping restore external sustainability in conjunction with IMF programmes, and to support the reform programme of the authorities. The MFA to Tunisia was implemented between October 2017 and November 2019 and linked to the fulfilment of fifteen specific policy conditions covering seven reform areas namely public finance management and civil service reform, taxation, social protection, labour market, financial sector, investment climate and tourism. The MFA to Jordan was implemented between October 2017 and July 2019 and contained eleven structural conditions across five areas: public finance management; taxation; social safety nets; employment and trade; and water.

This study constitutes an independent evaluation of the EU's second MFA to Tunisia and to Jordan. It analyses the operations' relevance, effectiveness, efficiency, EU added value and coherence. It includes an analysis of debt sustainability and social impact.

The study concludes that the size, form and timing of the operations were relevant and appropriate to the countries' financing needs, providing EU added value. In both countries, the MFA had a positive impact on debt sustainability and played a positive role in promoting macroeconomic stabilisation. Conditionality was relevant, focused on key reform areas. The operations were coherent with the policy framework. They supported positive change in some reform areas, despite mixed progress in some other specific reforms. Several lessons e.g. for the design of the operations, were drawn from comparing the two countries. From a regional perspective, it can be reasonably assumed that the impact and spillovers on the MENA region of the two MFAs were relatively limited and mostly associated with less measurable channels (confidence effect).

## **Executive summary**

This report presents the results of the ex-post evaluation of two Macro Financial Assistance (MFA) operations to the southern neighbourhood countries of Tunisia and the Hashemite Kingdom of Jordan (implemented during 2016 – 2019). The evaluation was commissioned by the Directorate-General for Economic and Financial Affairs (DG ECFIN). The work was undertaken by ICF, in collaboration with Cambridge Econometrics and local and regional economics experts.

### **Background to the evaluated MFA II operations**

#### ***Tunisia***

Tunisian authorities requested a new MFA operation (MFA II) in August 2015. The implementation of MFA I, although granted in the wake of the 2011 Jasmine Revolution, had only recently started<sup>1</sup>. The request for MFA II was on foot of three major terrorist attacks<sup>2</sup> in 2015, followed by an attempted invasion by Daesh in March 2016<sup>3</sup>. These security threats, combined with a difficult economic situation and the repercussions from the crisis in Libya, heavily impacted the tourism and transport sector, as well as investment and, subsequently, the entire Tunisian economy, with output growth falling to mere 1.2% in 2015.

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<sup>1</sup> MFA I was implemented from 2015-2017.

<sup>2</sup> Bardo Museum attack in March, Sousse attack in June, Tunis suicide bombing attack in November.

<sup>3</sup> The Guardian (2016). 'Tunisia border attack by suspected Isis forces kills 52.' Available at: <https://www.ft.com/content/e7a728be-e445-11e5-a09b-1f8b0d268c39>

MFA II was approved by the European Parliament and the Council in July 2016, shortly after the Commission's proposal. Its objectives were to support the restoration of sustainable external financing for Tunisia, complementing resources provided under the IMF programme, and to support the ambitious reform programme initiated by the Tunisian authorities under MFA I.

MFA II consisted of up to EUR 500 million in the form of long-term loans. Disbursement of the second and third tranches were linked to 15 specific policy conditions in seven reform areas: (i) Public Finance Management (PFM) and civil service reform; (ii) taxation; (iii) social protection; (iv) labour market; (v) financial sector; (vi) investment climate; and (vii) tourism.

MFA II was disbursed in full. The first disbursement of EUR 200 million was made in October 2017, soon after where the ratification of the Memorandum of Understanding (MoU) by the Tunisian Parliament and the disbursement of the final tranche of MFA

I. Disbursement of the second and third tranches (EUR 150 million each) took place in 2019, after a long time lag, linked to slow progress in meeting some of the conditions.

### **Jordan**

From 2015, a confluence of factors - including large public sector deficits, regional conflicts, the fall in external inflows and rising debt repayment obligations - contributed to Jordan's sluggish economic growth and put the country's external debt on an unsustainable trajectory. Gross public debt, which had been rising since 2008, increased to 95.1 percent of GDP in 2016, further weakening public finances. While significant policy adjustments allowed Jordan to preserve macroeconomic stability, mounting pressure on public services as a result of the sustained influx of Syrian refugees continued to weigh heavily on the economy.

Against the backdrop of significant increase in the balance of payment deficit, and in accordance with commitments undertaken at the 2016 'Supporting Syria and the Region' Conference, the Jordanian authorities formally requested a second MFA operation (MFA II) on 3 March 2016. The decision of the co-legislators to provide MFA II of up to EUR 200 million in loans was subsequently adopted on 14 December 2016. That followed MFA I (EUR 180 million), adopted by the European Parliament and the Council in 2013 and completed in 2015.

Disbursement under MFA II was, inter alia, dependent on the satisfactory fulfilment of 11 structural conditions across five areas: public finance management; taxation; social safety nets; employment and trade; and water. The first disbursement of EUR 100 million was made in October 2017, nearly 9 months after the MFA II adoption by the European Parliament and Council. It then took a further 20 months before disbursement of the second tranche, in June 2019.

### **Purpose of the evaluation**

This evaluation assesses the contribution of the MFA II facility to the macro-economic and structural adjustment of Tunisia and Jordan. It examines:

whether the ex-ante considerations determining the design and terms of the operations were appropriate, taking due account of the economic, political and institutional context; and

whether the outcome of the programmes met their intended objectives.

Given that the evaluation covers two countries, a further objective is to flesh out key similarities, differences and patterns across the two interventions and also assess the regional impact of MFA in the southern neighbourhood.

### **Methodology**

This evaluation used a mixed-methods approach and was carried out in line with the requirements set out in the European Commission's Better Regulation Guidelines. It relied on several qualitative and quantitative techniques to establish a comprehensive evidence base for the evaluation and triangulation of findings. The following methods were used to build the evidence base:

- **Desk research**, entailing a review and analysis of all relevant literature, official documentation and macroeconomic data.
- **Semi-structured interviews with key stakeholders**, all conducted online. Interviews were held with relevant staff from the European Commission, the European External Action Service (EEAS), the EU Delegation in Tunis and Amman, officials from the relevant ministries and agencies in Tunisia and Jordan, representatives from international financial institutions (International Monetary Fund (IMF), World Bank (WB)) as well as key bilateral donors.
- **Internal brainstorming session on counterfactual scenarios** that took place at the inception stage of the evaluation and involved the core members of the ICF and Cambridge Econometrics teams, as well as local and regional experts.
- **Expert surveys** that collected views of selected experts on the macroeconomic situation in Tunisia and Jordan respectively and the alternatives for the authorities in the absence of MFA II. The survey also explored the role and contribution of MFA II in promoting structural change.
- **Focus groups with the members of local civil society**, including journalists, representatives of the private sector and academics.
- **In-depth case studies** on MFA-promoted reforms in external audit.
- **Debt Sustainability Analysis (DSA)**, assessing the sustainability of the Tunisian and Jordanian public debt before and after MFA II.
- **Social Impact Analysis (SIA)**, examining the extent to which MFA II potentially cushioned the social impact of the crisis.
- **Online validation workshops**, attended by EU stakeholders, representatives from the national authorities and local IMF and WB officials. The aim was to discuss the study findings and recommendations for future MFA operations.

## **Findings and conclusions of the evaluation**

### **1 - Tunisia**

#### ***Size of the assistance***

The Tunisian MFA II package of EUR 500 million was large in both absolute and relative terms. It represented a step change compared to MFA I (EUR 300 million). Aside from Ukraine, the MFA II operation to Tunisia was the largest MFA operation since 2000<sup>4</sup>. It corresponded to circa 0.6% and 0.9% of GDP in 2017 and 2019, respectively. This represented more than public expenditure on one of the main social assistance programmes in Tunisia (*Programme National d'Aide aux Familles Nécessiteuses*, PNAFN), which commonly absorbs ~0.5% of GDP per year. Taking into account burden-sharing, the size of the MFA financing was assessed as appropriate overall.

#### ***Form of the assistance***

The MFA financing was provided as EUR 500 million loan on highly concessional terms, mirroring the terms the EU could obtain on the market. The guiding principles used to determine the form of the assistance (including *per capita* income of Tunisia, debt sustainability and poverty level) ruled out any grant component. Considering the other type of

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<sup>4</sup> European Union (2019). Macro-Financial Assistance to non-EU partner countries. Available at: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries\\_en#documents](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en#documents)

EU financial support provided to Tunisia in the form of grants, the loan format of the MFA II was appropriate.

### **Conditionalities associated with MFA support**

All thematic areas addressed by MFA II conditionality corresponded to priority areas for reform. In several areas (external audit and social safety net), MFA II conditions showed continuity with MFA I, facilitating ongoing progress. Lessons from MFA I were incorporated in the design of MFA II conditions: the ambition level of the social safety net conditions was better calibrated than MFA I; and measures related to the preparation of the Deep and Comprehensive Free Trade Area (DCFTA) were excluded from the scope of MFA I.

Despite being generally strongly aligned with the country's own reforms agenda, there were several instances where EU interests were also evident in the wording of specific conditions (access of firms, including foreign firms, to public procurement; relaxation of market access rules for investors, including foreign investors; Euro-Aviation agreement). This may fuel concerns about 'tied' aid, with the condition relating to the Euro-Mediterranean aviation agreement being particularly problematic.

There was an effort to balance and tailor different types of conditions to the Tunisian context. Concrete measures with immediate impacts (e.g. public procurement, labour market) were included as MFA conditions, reflecting the eagerness for tangible reform among Tunisian civil society. Several conditions pushed for actual implementation as a means of following through on earlier steps and tackling the general lack of enforcement (as described in the focus group). Three parallel conditions required legislative change, reflecting EU leverage in the country. Notwithstanding the typical challenges, the condition on the parliamentary passage of the new Law on the Cour des Comptes CdC) was seen as particularly justified, given (i) EU involvement with that specific aspect through other instruments; and (ii) expected benefits in terms of administrative and financial independence of the CdC.

### **Coherence**

MFA II was well aligned with the broad policy framework guiding EU-Tunisia relations (including the Association Agreement, European Neighbourhood Policy (ENP), Privileged Partnership, and DCFTA (still under negotiation)). It formed part of the wider package of EU support to Tunisia post-revolution and adequately complemented EU budget support programmes in several domains.

MFA II was also coherent with the assistance provided by other international organisations, most notably the IMF and WB (including at conditionality level). Donor coordination efforts intensified in Tunisia over the course of MFA II, as illustrated by the organisation of joint high-level missions to support policy dialogue and adoption of joint policy matrices (where key socioeconomic reforms are agreed with the Tunisian government and responsibilities between donors are delineated).

### **Effectiveness**

#### ***Role and contribution of the MFA in promoting macroeconomic stabilisation***

Despite some success in containing public sector deficit (falling from 5.9% in 2016 to 4.1% in 2019) and a brief increase in GDP growth in 2018, the situation remained challenging over the period of MFA II implementation, as evidenced by the return of the low growth environment in 2019, debt accumulation and persistently high financing needs.

In the absence of the MFA II first tranche in 2017 (Alternative 1) and second and third tranches (Alternative 2), the evidence suggested that the most plausible option would have been to obtain financing from the domestic financial markets and cut public investment. Other possible financing sources were more uncertain: Tunisia's cost of borrowing on international financial markets increased over time, multilateral donors were focused on pushing for the implementation of their existing programmes, and bilateral donor countries' support was already maximised and rather unpredictable (dependent on oil exports/revenue for Arab countries). Fiscal policy adjustments (other than those related to capital expenditure) would

likely have been met with stiff opposition. Further depreciation of the Tunisian dinar is not plausible, given the economic climate and inflationary pressures in those years. It is possible that some amounts might have been raised using these sources, proportionally decreasing the need for cuts to public investment or additional domestic debt issuances, and therefore, reducing the negative impacts associated with these sources of finance. However, the central assumption underpinning the analysis presented further assumes reliance on cuts to public investment and increased domestic debt issuances in the absence of MFA.

Aside from the cost of servicing debt, the main downsides of the absence of MFA would have been GDP decline as a result of cuts to public expenditure (real GDP 0.44-1.1% lower by 2025 compared to the baseline, depending on the Alternative considered) and inflationary pressures (inflation rate 0.2-0.3 percentage points higher) from increased domestic financing.

The hypothetical absence of both the MFA II and IMF support programme ('Alternative 3') would have had far more severe implications. The disbursements under these two programmes represented the equivalent of EUR 1.9 billion (EUR 1.4 billion for the IMF Extended Fund Facility (IMF EFF) arrangement and EUR 500 million for MFA II). The financing gap opened by the absence of support from the IMF and the EU would likely have been even higher, as it would have triggered a loss of access to international markets between 2017 and 2019 (representing EUR 2.8 billion at that time). The analysis suggests that Tunisia would have been able to meet its debt obligations, however, with the government instead attempting to cover the gap using a range of options, such as cuts to public investment and increased domestic debt issuances. Those would have had significant impacts on growth prospects (GDP decline of 13% by 2025, compared to the baseline) and the social situation. In addition, it is possible that some amounts might have been raised using alternative sources, such as international support and increased tax revenues. Covering a part of the financing gap with these sources could proportionally reduce the negative impacts associated with cuts to public investment (GDP decline) and domestic borrowing (inflation). However, the amounts that could have been obtained using these sources are highly uncertain.

### ***Progress achieved in implementation of structural reform***

MFA II was fully disbursed, with all but one condition met. In the narrow sense, the measures, as defined by the text of the conditions, were implemented. The waiver in relation to the suppression of the VAT middle rate can be considered justified.

Beyond the fulfilment of the conditions *stricto sensu*, Tunisia made substantial reform progress in certain areas, notably on the legislative front, with the parliamentary adoption of key laws (external audit, social safety net), and on the technical front, with the creation of a scoring model to target vulnerable households (social safety net). In other areas (tax reform, investment climate), progress was more fragmented and the decisions did not always reflect a real willingness to change. For instance, instead of the expected streamlining among pre-existing institutions, a new structure was added to the institutional set up for investment promotion, adding another layer of complexity.

Even in areas where there was significant progress, there was little recognition in Tunisia, beyond government circles and international experts. The focus group discussions showed that the independence of the CdC is often not itself valued, with attention centring on lack of follow-up of CdC recommendations. This should be viewed 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 is also linked to the fact that the tangible impacts often failed to materialise. For instance, despite the many steps taken, social programmes remain poorly targeted, with the new scoring model only used to add new beneficiaries to the system.

### **Social impact**

The counterfactual analysis suggested that in the absence of MFA II, the social situation would have been moderately negatively affected. Negative effects would have occurred through direct channels (slower or more superficial progress with key reforms such as social safety net

reforms and labour market policy) and indirect channels (higher costs of living and lost income stemming from GDP impacts). In the absence of both MFA and IMF, indirect social impacts would be far more severe, with a predicted sharp decline in output, exacerbating existing labour market issues, dampening job creation and causing permanent damage to incomes. Coupled with accelerating inflation, this would likely have had severe impacts on living conditions. In addition, public investment cuts would have had impacts on longer term conditions (infrastructure, quality of public services, security).

If the Tunisian authorities were able to cover at least a part of the financing gap using funds obtained from international donors or international financial markets, some of these negative social impacts may have been less severe.

### **Debt sustainability**

The absence of individual tranches of MFA II would have increased Tunisia's debt accumulation only slightly, as a result of the direct difference in interest payments (comparing the costlier domestic financing compared to MFA terms) and the indirect effect on interest demanded by private investors due to weakened confidence. Cumulative, undiscounted impacts on the cost of Tunisia's borrowing are not insubstantial (approximately EUR 127.3 million for the first tranche and EUR 108.6 million for the second and third tranches<sup>5</sup>). If, however, Tunisia was able to secure alternative financing from other donors at preferential rates, the increase in the cost of borrowing would have been lower. Regardless of the precise combination of options used to cover the gap, Tunisia's debt sustainability would not have been significantly affected, however.

In the no MFA no IMF scenario, the combined effect of the decline in GDP from the baseline projection (as a result of deep cuts to public investment) and the higher costs of borrowing would have seriously weakened Tunisia's debt sustainability. By 2025, the public-debt-to-GDP ratio would have increased to an estimated 93.8% of GDP, compared to 84.4% in the baseline. In this context, while Tunisia would most likely have been able to meet its debt obligations in the short term, the absence of MFA and IMF support could have placed the country's debt on an unsustainable trajectory in the medium to long term<sup>6</sup>.

### **Efficiency**

#### ***Timing of disbursements***

The relevance of the MFA financial envelope remained high throughout the operation. In 2017, the continuity of EU support in Tunisia was valuable, given the deteriorating fiscal stance (public deficit stood at 6.5% in 2017). In 2019, the second and third disbursements came at a time when growth was decelerating (dropping to 1%) and considerable debt repayment obligations were due (EUR 2 billion). In 2018, the absence of an MFA disbursement was accommodated by budgetary support from other international financial institutions (IFIs) and donors, as well as financing raised from the domestic banks (in foreign currency).

#### ***Ownership of reforms***

MFA-related reforms were aligned with the reform programme to which the authorities were already committed. However, there was a discrepancy in their willingness to bear responsibility for the cost of reforms. In addition, expression of political will by top leadership, public statements in favour of the reforms, and efforts to gain broader support for the reform outside of the government were systematically lacking. Other elements also served to block

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<sup>5</sup> Savings would be smaller under 'Alternative 2', as it was assumed that the government would have leaned more heavily on public investment cuts. This is because in 2019, the actual inflation rate (7.1%) was closer to the maximum headroom (7.9%), compared to 2017 (inflation rate 4.8%).

<sup>6</sup> Here again, if the Tunisian authorities were able to find some additional support from other international partners or bilateral donors, the negative impact of this hypothetical scenario on Tunisia's debt sustainability could have been possibly mitigated.

reforms, such as political instability resulting from frequent changes of governments, and strong socioeconomic demands.

### **Capacity**

Capacity issues caused delays in implementing reform. In some cases, complementary technical assistance programmes run by other donors were instrumental in taking forward the reforms (e.g. technical assistance from the WB for social safety net reforms). In other cases, the roots of the issue were more of a coordination failure on the authorities' side, intended to be partly addressed by the intensification of coordination work by key donors and IFIs since 2018.

### **Liaison and monitoring processes**

Structural challenges faced by the Tunisian administration had a certain bearing on the efficiency of the processes. Nevertheless, liaison with the authorities was more fluid under MFA II than MFA I, given increased familiarity with such operations.

### **Adjustments to implementation given unforeseen external events**

In assessing the fulfilment of the conditions, overall, it appears that the right balance was struck between flexibility (e.g. VAT reform) and steadfastness where necessary (e.g. CdC Law). There was no evidence that the EU was overly flexible in MFA II, despite general criticism, among the surveyed experts and IFIs and donors themselves, that the international community is rather lax in Tunisia and does not promote change effectively.

### **Visibility of the programme**

As expected, visibility of the MFA instrument among the general public was very limited, with no associated public acceptance issues. By contrast, the IMF programme faced more criticism.

### **EU added value**

In financial terms, the MFA operation provided clear EU added value in that Member States alone would likely not have provided aid of that size in the form of budget support, in addition to the rather exceptional support they were already providing. The EU added value also stems from the terms and conditions associated with the MFA operation, which were very concessional terms (preferential rates of 0.3-0.75%, along with maturity of 13-16 years, depending on the tranches). These conditions are generally on par with those offered by other donors.

Symbolically, MFA II financing sent a strong signal of EU support to Tunisia. It met expectations that the EU would step in at a time of crisis, given the EU-Tunisia privileged partnership and Tunisia's ongoing political transition. It was received positively despite certain public scepticism about the effectiveness of international support and the donor agenda in general.

MFA II had some confidence-boosting effects and, together with the IMF, prevented a further drop in confidence in the Tunisian economy. It also had a reinforcing effect on the implementation of key reforms and was instrumental in achieving the independence of the CdC. The expert survey suggested that the EU could have used its leverage to promote deeper structural reforms, such as reform of state-owned enterprises or public administration. Should the EU hold such an ambition, however, it would need to offer a support package large enough to overcome resistance to change. Finally, roles with the IMF could have been better divided, with more efficient use of cross-conditions and EU efforts better targeted towards areas where it had specific expertise and experience.

## **2 – Jordan**

### **Relevance**

#### **Size of the assistance**

The scale of support provided through MFA II was quite limited compared to other MFA operations. The EUR 200 million provided under MFA II was lower than the amount requested (EUR 350 million) but was accompanied by a commitment incorporated in a Joint Declaration by the European Parliament, the Council, and the Commission to consider further MFA assistance if and as needed.

In relative terms, the size of MFA II to Jordan represented 0.3% of GDP in both 2017 and 2019. It was not an insignificant amount, especially taken together with the combined assistance received in the form of budget support from the IMF and WB, as well as other EU budgetary support operations (MFA II represented 15% of that total).

### **Form of the assistance**

MFA II financing was provided as highly concessional loans offered at below-market rates and on terms more favourable than those of the IMF. Given the size of the operation and key factors specific to Jordan (per capita income, debt sustainability, and poverty level), an MFA in the form of grant, or including a grant component, was not considered a viable option.

### **Conditionalities associated with MFA II support**

The number of MFA II conditions was assessed as being appropriate in the 2.5 years availability period of MFA II, and the majority were suitably ambitious and well-targeted, given the priorities for reform. Some conditions, however, were considered overly ambitious, given the initial timeframe and government's capacity (e.g., Tax Reform) or under ambitious (e.g., Water Sector).

Evidence suggests that the range of thematic areas addressed by MFA II was appropriate given the prevailing political, economic and institutional context. The conditions on the revised debt management strategy, together with the restructuring of the Public Debt Directorate, were crucial to stabilising public debt. The disengagement of the Audit Bureau and revisions to the Audit Bureau Law were intended to increase the Bureau's independence and to improve the legal basis for the fight against corruption. While taxation reform was needed to maintain sustainability, the social safety net required expansion and modernisation in order to offset the economic impact in at-risk groups. The inclusion of Syrian refugees in the labour market was crucial from a social standpoint, while the Action Plan for the Water Sector aimed to create cost savings from better energy efficiency, while simultaneously safeguarding vulnerable households.

Many of these reform areas were inextricably linked either to the objectives of the MFA operation (e.g. PFM, taxation) and/or EU external policy objectives in the region (e.g. Employment and Trade).

### **Coherence**

MFA II was well aligned with the broad policy framework guiding EU-Jordan relations, most notably the Association Agreement (AA). Mapping the conditions of the MFA II against the short-term priorities established in the AA shows how those conditionalities fed into the implementation of the Agreement. In addition, MFA II formed part of the wider package of EU support to Jordan, including grant assistance, budget support programmes, humanitarian assistance, and technical assistance, many of which targeted the same areas as MFA II (public finance management, support for the inclusion of Syrian refugees). MFA II had synergies with the programmes of other international organisations, notably the IMF, WB, and AFD (including at conditionality level).

### **Effectiveness**

#### **Role and contribution of MFA II in promoting macroeconomic stabilisation**

Despite efforts to curb public sector deficits and narrow the current account deficit (CAD), the situation remained challenging from 2016 to 2019, with a GDP growth rate that all but flatlined and a debt-to-GDP ratio that kept increasing. Experts believe, however, that macroeconomic outcomes would have been less favourable in the absence of MFA II.



Findings from the counterfactual analysis suggest that without the MFA II first tranche in 2017 (Alternative 1), obtaining alternative financing from bilateral donors would have been complicated and highly uncertain, while drawing on reserves would have been severely constrained by looming repayment obligations. Further cuts to public spending or privatisation would have been impossible, both economically and politically. The most likely outcome is that Jordan would have met most of the resulting financing gap by issuing new debt in domestic markets, with the remainder covered by accelerated efforts to curb tax evasion. The same options would have been available to Jordan had the second tranche not been disbursed in 2019 (Alternative 2).

Under the hypothetical scenario in which neither MFA II nor the IMF Extended Fund Facility (IMF EFF) had been available (Alternative 3) in 2017 or 2019, this would have considerably weakened the Jordanian macroeconomy. Projected outcomes under this scenario would have been highly uncertain, and diverse views emerged from engagement with stakeholders throughout this study. On balance, however, this report judges that the absence of MFA and IMF support would have considerably affected access to international financial markets, economic growth and inflation, while placing mounting pressure on the fixed exchange rate system. Given the implications of these pressures on the financing gap and domestic borrowing headroom, this would have had consequences on debt sustainability and the outlook of the Jordanian economy.

### **Progress achieved in structural reform areas**

Jordan made tangible progress in the areas of structural reform associated with the MFA, meeting or going beyond the fulfilment of MFA II conditions. Some of that progress has lately been undermined by the ongoing COVID-19 crisis, however.

As of 2021, the National Unified Registry (NUR) has completed all stages of the expansion procedure, and an online platform is now used to identify and collect key indicator data on poor families. The platform was particularly useful in the implementation of Emergency Social Support 2020, including for the bread subsidy. Given its role in increasing the number of beneficiaries of support between 2016 and 2020, and connecting at least 15 government entities, discussions are ongoing on the possibility of using the NUR tool to provide targeted support in electricity and water support, medical care and health insurance.

In the public finance management area, the Debt Management Strategy (2019 – 2023) has been recently updated, and the complaints review mechanism has allowed the government to fight corruption and improve accountability in public procurement. Key milestones have also been achieved in the audit field, with the institutional architecture now largely in place and some tangible developments currently ongoing at the technical and legislative level.

Jordan made steady progress in taxation reform, but more needs to be done to ensure much-needed sustainable revenue to the government. Deeper reform is also needed in the inclusion of Syrian refugees, accountability on socioeconomic data, and water. Recently, the financial deficit in the water sector has widened and is aggravating budgetary problems.

### **Social impact**

The counterfactual analysis suggests that without the MFA II first tranche, but with IMF support (Alternative 1), there would have been only modest indirect social impacts, due to alternative sources of finance that would not involve government cuts.

Under Alternative 2 (no MFA II second tranche), despite the availability of other sources of financing, there could have been some implementation risks to social reform, including slower and less thorough reform of social safety nets, tax policy, and access to employment/training for refugees. This could have negatively impacted the social situation in Jordan, for example through delays in establishing the NUR, and slower inclusion of Syrian refugees. It is likely also that longer-term damage to targeting would likely have stemmed from weaker progress in improving administrative/monitoring capacity. Under this scenario, some sales tax increases affecting poorer households (e.g., foodstuffs) would have been avoided, however, potentially generating some positive social impacts.

In the absence of both MFA and IMF support (Alternative 3), projected outcomes would have been highly uncertain, but are anticipated to have severe implications for the social situation in Jordan. Such implications could include economic recession, increased rates of unemployment, high levels of inflation and cuts to public services and wages.

### **Debt sustainability**

Even with some successful efforts to curb public sector deficits and support from the IMF and MFA II, Jordan accumulated further debt between 2016 and 2019, albeit at a slower rate. This slowing rate was not sufficient to reverse the effects of the highly unsustainable debt accumulation trajectory of previous years, and by 2020 Jordan's government requested further assistance from the IMF and from the EU as well <sup>7</sup> (before the outbreak of the COVID-19 pandemic).

The analysis of the most likely outcomes in the absence of MFA II first tranche in 2017 (Alternative 1) or the second tranche in 2019 (Alternative 2) suggests that the options available to Jordan would have been similar in both 2017 and 2019: Jordan would have replaced MFA assistance almost entirely with domestic borrowing. In the medium-term, this would have resulted in an increase in the cost of borrowing, as the domestic financial markets offered much higher interest rates than MFA II's concessional rates. In both years, the key macroeconomic indicators would have remained largely unchanged from the baseline scenario and would have had little bearing on Jordan's risk of default.

Without either MFA II or IMF support (Alternative 3), projected outcomes would have been highly uncertain and considerably weaker in comparison to the baseline case. It is concluded that, under this hypothetical scenario, the pressures on the financing gap and domestic borrowing headroom would have had consequences for debt sustainability and the outlook of the Jordanian economy.

### **Efficiency**

#### ***Timing of disbursements***

The first tranche was disbursed in 2017, in a particularly challenging economic and social context, against a background of rising oil prices and subsequent adjustment in electricity tariffs, as well as issues of low growth, rising unemployment and reduced investment. In 2019, when the (delayed) second tranche was disbursed, Jordan was still operating in a challenging context, marked by low growth, weak investment and shortfalls in expected tax revenue. A mix of fiscal measures and borrowing on domestic markets were used to bridge the gap caused by the delayed MFA II second tranche disbursement.

#### ***Ownership of reform***

Despite a rather lengthy implementation process in most of the conditions, the evaluation of MFA II to Jordan revealed no major issues stemming from a lack of ownership. Nevertheless, issues with lack of transparency, and mismatches between discourse and action were reported by interviewees. Judgements on level of reform ownership in Jordan differed somewhat: some interviewees acknowledged a higher degree of reform ownership embedded in an overall politico-institutional approach and a willingness by the Monarch to undertake structural changes and ensure that ownership would be maintained; others were more sceptical, noting a lack of accountability, whereby authorities subscribed to political programmes that they then failed to implement as agreed.

MFA II ownership was uneven across the various implementing bodies and reform areas. While some implementing ministries initially demonstrated willingness to take ownership for reform (i.e., debt sustainability (MoF)), other bodies showed little ownership of measures and attempted to resist reform (i.e. accountability for socioeconomic data). The unpredictable legislative and oversight processes of the Jordanian Parliament, together with high turnover in

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<sup>7</sup> MFA-III of EUR500 million— adopted by the EU in January 2020, before the COVID19

government officials, added to the challenge and further complicated ownership issues. On a positive note, strong levels of commitment to MFA at the highest levels overcame initial resistance (e.g., public procurement reform), establishing changes in practices that far exceeded the condition requirement.

### **Capacity**

The authorities were reportedly very slow in their responses, with the high level of bureaucracy and indecisiveness in the public sector, particularly for some conditions (e.g., Audit Bureau, public procurement) delaying the process. Interviewees also mentioned other constraints on capacity, including a lack of adequate resources, staff turnover, excessive red tape, burdensome administrative practices, and hierarchical complexity. Some of the reforms were achieved with strong reliance on external technical assistance (e.g., public procurement, NUR).

### **Liaison with the authorities and monitoring processes**

Despite the structural challenges faced by the Jordanian administration - which had some bearing on the efficiency of the processes, - MFA II brought some improvements compared to MFA I (learning effect).

### **Adjustments to implementation given unforeseen external events**

Overall, the European Commission was considered to be flexible in implementation and disbursement (e.g., tax reform), while at the same time remaining firm where necessary (e.g., public procurement reform). No waiver for MFA II was requested.

### **Visibility of the programme**

Visibility of the MFA as a specific instrument was very limited among the general Jordanian public, but well known among the authorities and stakeholders directly dealing with macroeconomic issues. While there is some general public suspicion about foreign aid, given Jordan's debt situation, there is no indication that MFA II created particular public acceptance concern.

### **EU added value**

The MFA II loan's primary advantage over alternative sources of financing (including IMF EFF) was its highly concessional terms, which included a relatively low interest rate, long maturity, and a long grace period, all of which resulted in significant fiscal savings for the Jordanian government. Jordan also benefitted from a strong signalling effect from both MFA II and the IMF EFF, while the related reforms and adjustment measures secured the confidence of international financial markets/investors and major creditors.

MFA II assistance had a symbolic importance, realising the expectation that the EU would step in to provide support at a time of severe financial, economic and refugee crises, as pledged at the London Conference in 2016.

Evidence suggests that MFA II secured progress on crucial reforms. Although the importance of EU influence varied depending on the area of reform, most stakeholders agreed that in the absence of MFA II, the reform process would have been slightly slower. Adoption of a firm and steady stance allowed the EU to leverage more effective and extensive reform in the area of public procurement, and further progress in the area of social safety nets, in particular, with a focus on accountability and good governance. Experts believe that continued progress in the reforms initiated through the MFA has the potential to restore investor confidence in Jordan.

## **3 – Comparative assessment**

### **The geo-political and macroeconomic context**

The two countries from the southern neighbourhood benefitting from the MFA operations over the said period shared many similarities: Tunisia and Jordan are similarly sized economies, at similar levels of development and affected by many common sources of vulnerabilities (including large current account and fiscal deficits, weak competition, welfare systems based

on universal subsidies, stubbornly high unemployment rates and inequalities). One difference was the debt trajectory in the run up to MFA, more unsustainable in the case of Jordan.

Besides, there was an eagerness from the EU to support both countries for geopolitical reasons. The context was however different in Tunisia and Jordan. Tunisia stands as the sole example of ongoing political transition following the Arab Spring. It is strongly orientated towards the EU, as evidenced by an analysis of trade, IDE, aid and remittance flows. Jordan on the contrary did not experience any regime change and is more embedded in the geopolitics of the Middle East.

The main triggers for the operations were also different across the two countries. In Tunisia, the main triggers were domestic security threats, combined with the repercussions of the crisis in Libya, while in Jordan, these were related to the economic consequences of the Syrian crisis, and in particular the Syrian refugee influx.

### ***The design and implementation of the two operations***

The design and implementation timetable of the two operations share many common characteristics. In both cases, the design phase was long, with a time-lag between MFA request and MoU signature of 18-20 months. The second disbursement occurred in both cases in July 2019, 21 months after the first disbursement, given delayed progress with implementation of key reforms.

Although the MFA to Tunisia was bigger in both absolute and relative terms, the size of the assistance was appropriate in both cases when taking account of burden sharing considerations and residual financing needs. MFA financing was provided to both countries in the form of highly concessional loans, thereby complementing the EU support provided in the form of grants.

Both operations contained a manageable number of conditions targeting some common thematic areas such as PFM, taxation, SSN and labour market. The choice of the conditions was largely found to be adequate. Relevant thematic areas were addressed, and conditions were aligned with the countries' own reform agendas. In several respects MFA II conditions showed continuity with MFA I and built upon the lessons learnt from past experience. In the case of Tunisia, reflecting the size of the operation and the EU's leverage in the country, there was slightly greater focus on actions forming part of a longer reform process, including conditions related to legislative change. The Tunisian operation also featured conditions which clearly promoted the EU's economic interests (alongside the countries' priorities), which can be problematic from a point of view of principle.

### ***The outcomes and impacts of the two operations***

#### *Macro-economic adjustment*

The macroeconomic situation remained challenging throughout 2016-19 in both countries. However, it would have been worse in the absence of the MFA financing, at least in Tunisia, where it is assumed that the financing gap would have been filled by a mix of increased domestic financing and cuts to public investment. This hypothetical scenario would have had small-to-modest impact on GDP, reinforced the inflationary pressure and also indirectly triggered negative social consequences (higher costs of living and lost income).

In both countries, debt sustainability would have remained largely similar to what was observed (the baseline) in the case of no MFA funding. The cost of borrowing would have increased though, given the costlier domestic financing compared to MFA terms and the indirect effect on interest demanded by private investors due to weakened confidence.

In the case of no MFA and no IMF funding, outcomes are more uncertain. Consequences for debt sustainability can be assumed to be severe, already in the short term for Jordan and in the medium to long term for Tunisia.

#### *Structural adjustment*

Stricto sensu, all conditions (but one in Tunisia) were fulfilled. Both countries have made tangible progress, including in socially relevant areas. There are however also areas where reform has been more challenging. Capacity issues were one of the factors causing delays in implementing reform in both countries, coupled with political instability and coordination issues in the case of Tunisia.

Several lessons were drawn from comparing the two countries. Lessons pertain to the design of the conditions, calling for a parsimonious use of cross-conditions and a focus on areas where the EU is heavily involved (through other programmes / instruments / past MFAs). Other aspects were found to be helpful to foster ownership, namely the experience of Tunisia with the donor matrix, or could have been helpful if implemented (public communication on the benefits of reforms).

#### **4 – Regional analysis**

According to literature, growth spillovers and impacts of macroeconomic assistance beyond borders take place through two types of channels of transmission: macroeconomic channels (trade, tourism, FDI, remittances) and other channels (policy, confidence, political instability, security concerns). Tunisia and Jordan are both small economies and the MENA region is integrated only to a limited extent. As such, Tunisia and Jordan are typically receivers of shocks and mostly vulnerable to growth shocks originating from outside the region.

While the two MFAs are expected to have had only limited direct macroeconomic impact within the region, impacts in combination with the IMF package are expected to be more sizeable. Spillovers may have taken place through less measurable channels such as image and confidence. The operations may also have supported EU migration policy and sent a signal of democratic support in the region.

### **Executive summary (French)**

#### **Résumé analytique**

Ce rapport présente les résultats de l'évaluation ex post de deux opérations d'assistance macrofinancière (AMF) octroyées aux pays méridionaux voisins que sont la Tunisie et le royaume hachémite de Jordanie au cours de la période 2016-2019. Cette évaluation a été demandée par la direction générale des affaires économiques et financières (DG ECFIN). Les travaux ont été réalisés par ICF, en collaboration avec Cambridge Econometrics et des experts locaux et régionaux spécialistes de l'économie.

#### **Contexte des opérations d'AMF II évaluées**

##### ***Tunisie***

Les autorités tunisiennes ont demandé une nouvelle opération d'AMF (AMF II) en août 2015. La mise en œuvre de l'AMF I, bien que cette dernière ait été accordée au lendemain de la révolution de jasmin de 2011, n'avait que récemment débuté<sup>8</sup>. La demande de l'AMF II invoquait les trois importantes attaques terroristes<sup>9</sup> de 2015, et la tentative d'invasion de Daesh de mars 2016<sup>10</sup>. Ces menaces sécuritaires, associées à une conjoncture difficile et aux répercussions de la crise libyenne, ont eu de lourdes conséquences sur les secteurs du tourisme et du transport, ainsi que sur les investissements, puis, par ricochet, sur l'économie

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<sup>8</sup> L'AMF I a été mise en œuvre au cours de la période 2015-2017.

<sup>9</sup> Attaque du musée du Bardo en mars, attaque de Sousse en Juin, attentat-suicide de Tunis en novembre.

<sup>10</sup> *The Guardian* (2016). *Tunisia border attack by suspected Isis forces kills 52*. Disponible à l'adresse <https://www.ft.com/content/e7a728be-e445-11e5-a09b-1f8b0d268c39>

tunisienne dans son ensemble, entraînant une chute de la croissance de la production, qui n'atteignait que 1,2 % en 2015.

L'AMF II a été approuvée par le Parlement européen et le Conseil en juillet 2016, peu après la proposition de la Commission. Elle avait pour objectifs de soutenir la restauration d'un financement extérieur durable pour la Tunisie, de compléter les ressources octroyées au titre du programme d'AMF, et d'appuyer l'ambitieux programme de réforme lancé par les autorités tunisiennes dans le cadre de l'AMF I.

L'AMF II consistait en prêts à long terme d'un montant maximal de 500 millions d'euros. Le versement des deuxième et troisième tranches dépendait du respect de quinze conditions portant sur sept domaines de réforme : (i) gestion des finances publiques et réforme de la fonction publique ; (ii) fiscalité ; (iii) protection sociale ; (iv) marché du travail ; (v) secteur financier ; (vi) climat des investissements ; et (vii) tourisme.

L'AMF II a été intégralement versée. Le premier versement de 200 millions d'euros a été effectué en octobre 2017, peu après la ratification du protocole d'accord par le Parlement tunisien et le versement de la dernière tranche de l'AMF I. Le décaissement des deuxième et troisième tranches (150 millions d'euros chacune) est intervenu bien plus tard, en 2019, en raison de la lenteur à remplir certaines des conditions.

### **Jordanie**

À partir de 2015, la convergence de divers facteurs (importants déficits publics, conflits régionaux, baisse des flux extérieurs et augmentation des obligations de remboursement de la dette, entre autres) a contribué à la faiblesse de la croissance économique de la Jordanie et a placé la dette extérieure du pays sur une trajectoire intenable. La dette publique brute, qui était en hausse depuis 2008, est passée à 95,1 % du PIB en 2016, affaiblissant davantage les finances publiques. Alors que d'importants ajustements stratégiques ont permis à la Jordanie de préserver sa stabilité macroéconomique, l'accroissement de la pression exercée sur les services publics en conséquence de l'incessant afflux de réfugiés syriens a continué de peser lourdement sur l'économie.

Dans le contexte de l'émergence d'une crise de la balance des paiements, et conformément aux engagements pris lors de la conférence « Soutenir l'avenir de la Syrie et de la région » en 2016, les autorités jordaniennes ont officiellement demandé une seconde opération d'AMF (AMF II) le 3 mars 2016. Les colégislateurs ont adopté une décision visant à accorder une AMF supplémentaire d'un montant maximal de 200 millions d'euros le 14 décembre 2016, faisant suite à la première opération d'AMF (180 millions d'euros) adoptée par le Parlement européen et le Conseil en 2013 et achevée en 2015.

Le décaissement de l'AMF II dépendait entre autres du respect de onze conditions structurelles portant sur cinq domaines : gestion des finances publiques ; fiscalité ; dispositifs de protection sociale ; emploi et commerce ; eau. Le premier versement de 100 millions d'euros a été effectué en octobre 2017, près de neuf mois après que le Parlement européen et le Conseil ont adopté l'AMF II. Il a ensuite fallu attendre vingt mois de plus avant d'assister au décaissement de la seconde tranche, en juin 2019.

### **Objet de l'évaluation**

Cette évaluation examine la contribution de l'AMF II à l'ajustement macroéconomique et structurel de la Tunisie et de la Jordanie. Elle cherche à établir :

- Si les considérations ex ante déterminant la structure et les modalités des opérations étaient appropriées, compte tenu du contexte économique, politique et institutionnel ; et
- Si les programmes ont rempli leurs objectifs.

Étant donné que cette évaluation porte sur deux pays, elle a pour objectif supplémentaire de faire ressortir les principales similitudes, différences et tendances des deux interventions, ainsi que d'évaluer l'impact régional de l'AMF sur le voisinage méridional.

### **Méthodologie**

Cette évaluation est fondée sur une méthodologie mixte ; elle a été réalisée conformément aux exigences énoncées dans les lignes directrices de la Commission pour une meilleure réglementation. Elle s'appuie sur diverses techniques qualitatives et quantitatives visant à établir une base factuelle complète en vue de l'évaluation et à permettre la triangulation des constatations. Les méthodes suivantes ont été appliquées pour établir cette base factuelle :

- **Recherche documentaire**, incluant un examen et une analyse de la littérature pertinente, de la documentation officielle et des données macroéconomiques.
- **Entretiens semi-dirigés avec les principales parties prenantes**, tous réalisés en ligne. Ces entretiens ont eu lieu avec le personnel compétent de la Commission européenne, du Service européen pour l'action extérieure (SEAE) et de la délégation de l'UE à Tunis et à Amman, avec des représentants des ministères et organismes concernés en Tunisie et en Jordanie, des représentants d'institutions financières internationales (Fonds monétaire international (FMI), Banque mondiale), ainsi qu'avec les principaux donateurs bilatéraux.
- **Session de réflexion interne portant sur des scénarios hypothétiques**, qui s'est déroulée au début de l'évaluation et à laquelle ont participé les principaux membres des équipes d'ICF et de Cambridge Econometrics, ainsi que des experts locaux et régionaux.
- **Enquêtes** recueillant l'avis de divers experts sur la situation macroéconomique en Tunisie et en Jordanie et sur les possibilités s'offrant aux autorités en l'absence d'AMF supplémentaire. Ces enquêtes cherchaient également à établir si les opérations d'AMF supplémentaire jouaient un rôle dans la promotion des réformes structurelles et y contribuaient effectivement.
- **Groupes de réflexion réunissant des membres de la société civile locale**, notamment des journalistes, des représentants du secteur privé et des universitaires.
- **Études de cas approfondies** portant sur les réformes encouragées par l'AMF dans le domaine de l'audit externe.
- **Analyse de la viabilité de la dette**, évaluant la viabilité de la dette publique tunisienne et jordanienne avant et après l'opération d'AMF supplémentaire.

- **Analyse de l'impact social**, étudiant dans quelle mesure l'AMF II aurait atténué les retombées sociales de la crise.
- **Ateliers de validation en ligne**, auxquels ont participé les acteurs européens, des représentants des autorités nationales et des représentants locaux du FMI et de la Banque mondiale, dans l'objectif de discuter des constatations et recommandations de l'étude en vue de futures opérations d'AMF.

## **Constatations et conclusions de l'évaluation**

### **1 - Tunisie**

#### **Montant de l'assistance**

L'enveloppe d'AMF II tunisienne de 500 millions d'euros était importante à la fois dans l'absolu et en termes relatifs, et représentait un changement radical par rapport à l'AMF I (300 millions d'euros). Exception faite de l'AMF accordée à l'Ukraine, l'opération d'AMF II en faveur de la Tunisie est la plus grosse opération d'AMF depuis 2000<sup>11</sup>. Elle correspondait à environ 0,6 % et 0,9 % du PIB en 2017 et 2019, respectivement, ce qui représentait davantage que les fonds publics consacrés à l'un des principaux programmes d'assistance sociale tunisiens (Programme national d'aide aux familles nécessiteuses, PNAFN), qui absorbe généralement environ 0,5% du PIB par an. Compte tenu du partage des charges, le montant du financement d'AMF était globalement approprié.

#### **Forme de l'assistance**

Le financement d'AMF a été octroyé sous la forme d'un prêt de 500 millions d'euros à des conditions très favorables, similaires à celles que l'UE aurait pu obtenir sur le marché. Les principes directeurs utilisés pour déterminer la forme de l'assistance (notamment revenu par tête de la Tunisie, viabilité de la dette et niveau de pauvreté) excluaient toute composante de dons. Compte tenu des autres types d'aide financière de l'UE octroyés à la Tunisie sous forme de dons, une AMF supplémentaire sous forme de prêts était adaptée.

#### **Conditions associées à l'AMF**

Tous les domaines thématiques sur lesquels portaient les conditions spécifiques de l'AMF II correspondaient à des domaines de réforme prioritaires. Dans plusieurs domaines (audit externe et dispositif de sécurité sociale), les conditions de l'AMF II présentaient une continuité par rapport à l'AMF I, facilitant une progression constante. Les leçons tirées de l'AMF I ont été prises en compte lors de la conception des conditions de l'AMF II : le degré d'ambition des conditions applicables au dispositif de sécurité sociale ont été mieux calibrées que pour l'AMF I ; les mesures liées à la préparation de l'accord de libre-échange complet et approfondi (ALECA) ont été exclues de l'AMF [II].

Bien que les conditions particulières (accès des entreprises, notamment étrangères, aux marchés publics ; allègement des règles d'accès applicables aux investisseurs, notamment étrangers, accord « Euro-Aviation ») concordent de manière générale fortement avec le calendrier des réformes du pays, dans certains cas, les intérêts de l'UE ressortaient clairement

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<sup>11</sup> Union européenne (2019). Assistance macrofinancière aux pays partenaires non membres de l'UE. Disponible à l'adresse [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries\\_en#documents](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en#documents)



de leur formulation, ce qui peut susciter des préoccupations quant au caractère « lié » de cette aide, la condition concernant l'accord euro-méditerranéen relatifs aux services aériens s'avérant particulièrement problématique.

Un effort a été fait pour équilibrer et personnaliser les différents types de conditions en fonction du contexte tunisien. Des mesures concrètes produisant des effets immédiats (par ex. marchés publics, marché du travail) ont été incluses à titre de conditions à l'AMF, traduisant le souhait de réformes tangibles exprimé par la société civile tunisienne. Plusieurs conditions appelaient à une mise en œuvre effective afin de donner suite aux étapes précédentes et de lutter contre l'absence d'application (tel que décrit par le groupe de réflexion). Trois conditions parallèles nécessitaient une réforme législative, reflétant l'effet de levier exercé par l'UE sur le pays. Malgré ces difficultés typiques, la condition portant sur l'adoption d'une nouvelle loi sur la Cour des Comptes (CdC) par le Parlement a été considérée comme particulièrement justifiée, au vu (i) de l'implication de l'UE à cet égard par le biais d'autres instruments ; et (ii) des avantages attendus en termes d'indépendance administrative et financière de la CdC.

### **Cohérence**

L'AMF II correspondait bien au cadre stratégique général guidant les relations entre l'UE et la Tunisie (notamment l'accord d'association, la Politique européenne de voisinage (PEV), le Partenariat privilégié et l'ALECA (en cours de négociation)). Elle faisait partie de l'enveloppe globale de l'aide accordée par l'UE à la Tunisie après la révolution et complétait adéquatement les programmes d'appui budgétaire européens dans plusieurs domaines.

L'AMF II était également cohérente par rapport à l'assistance octroyée par d'autres organisations internationales, notamment par le FMI et la Banque mondiale (y compris du point de vue de la conditionnalité). Au cours de l'AMF II, les efforts de coordination des donateurs se sont intensifiés en Tunisie, comme le montre l'organisation de missions conjointes de haut niveau visant à soutenir le dialogue politique et l'adoption de matrices stratégiques communes (dans le cas où des réformes socio-économiques clés ont été convenues avec le gouvernement tunisien et où les responsabilités sont réparties entre donateurs).

### **Efficacité**

#### ***Rôle et contribution de l'AMF à encourager la stabilisation macroéconomique***

Malgré un certain succès à contenir le déficit du secteur public (qui est passé de 5,9 % en 2016 à 4,1 % en 2019) et une courte augmentation de la croissance du PIB en 2018, la situation est restée difficile tout au long de la période de mise en œuvre de l'AMF II, comme l'indique le retour à un environnement de croissance faible en 2019, l'accumulation des dettes et la persistance de besoins élevés de financement.

En l'absence de la première tranche d'AMF II de 2017 (scénario 1) et des deuxième et troisième tranches (scénario 2), certains éléments suggéraient que la solution la plus plausible aurait été d'obtenir un financement sur les marchés financiers intérieurs et de réduire les investissements publics. Les autres sources de financement possibles étaient plus incertaines : avec le temps, le coût des emprunts sur les marchés financiers internationaux a augmenté pour la Tunisie, les donateurs multilatéraux insistaient sur la mise en œuvre de leurs programmes, et le soutien bilatéral des pays donateurs avait déjà atteint son maximum et était quelque peu imprévisible (puisque dépendait des exportations / recettes pétrolières dans

le cas des pays arabes). Les ajustements de la politique budgétaire (autres que ceux concernant les dépenses en capital) auraient probablement suscité une farouche opposition. Une nouvelle dépréciation du dinar tunisien n'est pas plausible, vu le climat économique et les tensions inflationnistes de l'époque.

Outre le coût du service de la dette, les principaux inconvénients de l'absence d'AMF auraient été que le PIB aurait baissé en conséquence des coupes dans les dépenses publiques (PIB réel plus bas de 0,44 à 1,1 % en 2025 par rapport au référentiel, en fonction du scénario retenu) et des tensions inflationnistes (taux d'inflation de 0,2-0,3 points de plus) découlant de l'augmentation du financement intérieur.

L'absence hypothétique de l'AMF II et du programme d'assistance du FMI (scénario 3) aurait eu des conséquences bien plus graves. Les décaissements au titre de ces deux programmes représentaient l'équivalent de 1,9 milliards d'euros (1,4 milliard pour le Mécanisme élargi de crédit du FMI (MEC du FMI) et 500 millions d'euros pour l'AMF II). Le déficit de financement qu'aurait provoqué l'absence de soutien du FMI et de l'UE aurait sans doute été encore plus élevé, puisqu'il aurait limité l'accès aux marchés internationaux entre 2017 et 2019 (représentant 2,8 milliards d'euros à l'époque). L'analyse suggère qu'un défaut aurait toutefois évité puisque le gouvernement aurait à la place tenté de combler ce déficit en ayant recours à diverses solutions, notamment en procédant à des coupes dans les investissements publics et en augmentant les émissions d'emprunts sur le marché intérieur. Ceci aurait eu des répercussions importantes sur les perspectives de croissance (baisse de 13 % du PIB à l'horizon 2025, par rapport au référentiel) et la situation sociale.

### ***Progrès en matière de mise en œuvre des réformes structurelles***

L'AMF II a été intégralement décaissé, toutes ses conditions sauf une ayant été remplies. Au sens strict, les mesures définies dans les conditions ont été mises en œuvre. La renonciation se rapportant à la suppression du taux intermédiaire de TVA peut être considérée comme justifiée.

Outre qu'elle a rempli les conditions au sens strict, la Tunisie a réalisé d'importants progrès en termes de réformes dans certains domaines, notamment sur le front législatif, puisque le Parlement a adopté des lois essentielles (audit externe, dispositif de sécurité sociale), mais aussi sur le front technique, puisqu'un barème a été mis en place pour cibler les foyer vulnérables (dispositif de sécurité sociale). Dans d'autres domaines (réforme fiscale, climat des investissements), les progrès sont plus dispersés et les décisions ne reflétaient pas toujours une réelle volonté de changement. Par exemple, au lieu de l'optimisation attendue des institutions existantes, une nouvelle structure a été ajoutée au cadre institutionnel pour promouvoir les investissements, ajoutant une couche supplémentaire de complexité.

Même dans les domaines où des progrès importants ont été réalisés, la reconnaissance en Tunisie est restée faible au-delà des cercles gouvernementaux et des experts internationaux. Les discussions du groupe de réflexion ont montré que l'indépendance de la CdC était souvent négligée, l'attention étant focalisée sur l'absence de suivi de ses recommandations. Ceci s'explique notamment par le désenchantement général, la frustration largement répandue et la situation difficile qui prévalent actuellement en Tunisie (crise politique et institutionnelle, difficultés économiques, échec de la réponse à la COVID-19), mais aussi par le fait que les effets tangibles des mesures ont souvent failli à se concrétiser. Par exemple, malgré les nombreuses mesures prises, les programmes sociaux restent mal ciblés, le nouveau barème ne servant qu'à ajouter de nouveaux bénéficiaires au système.

## **Conséquences sociales**

L'analyse contrefactuelle laisse penser que, si l'AMF II n'avait pas été octroyée, l'impact négatif sur la situation sociale aurait été modéré. Des effets négatifs se seraient produits directement (progrès plus lent ou plus superficiel des réformes clés telles que les réformes du dispositif de sécurité sociale et de la politique du marché du travail) et indirectement (augmentation du coût de la vie et perte de revenus découlant des répercussions sur le PIB). En l'absence de l'AMF et de l'aide du FMI, les répercussions sociales indirectes auraient été bien plus graves, un déclin rapide de la production étant prévisible, exacerbant les problèmes actuels du marché du travail, freinant la création d'emplois et entraînant des dommages irréversibles en termes de revenus. Associée à l'accélération de l'inflation, cette absence d'aide financière aurait probablement eu des conséquences graves sur les conditions de vie. En outre, les coupes réalisées dans les investissements publics auraient eu des répercussions sur les conditions à plus long terme (infrastructure, qualité des services publics, sécurité).

## **Viabilité de la dette**

Si les tranches de l'AMF II n'avaient pas été versées, l'accumulation de la dette de la Tunisie n'aurait augmenté que légèrement, résultat de la différence directe en termes de paiements d'intérêts (si l'on compare le financement intérieur plus onéreux par rapport aux conditions de l'AMF) et de l'effet indirect sur les intérêts demandés par les investisseurs privés, à cause de la perte de confiance. Les conséquences cumulées non actualisées sur le coût des emprunts de la Tunisie ne sont pas négligeables (environ 127,3 millions d'euros pour la première tranche et 108,6 millions d'euros pour les deuxième et troisième tranches<sup>12</sup>). Toutefois, la viabilité de la dette de la Tunisie n'en aurait pas été notablement affectée.

Dans le scénario sans AMF ni aide du FMI, l'effet combiné de la baisse du PIB par rapport à la projection de référence (découlant des coupes profondes dans les investissements publics) et du coût plus élevé des emprunts aurait considérablement affaibli la viabilité de la dette de la Tunisie. Il est estimé que d'ici 2025, le ratio dette publique-PIB aurait augmenté pour atteindre 93,8 % du PIB, par rapport à 84,4% dans le cas du référentiel. Même si un défaut aurait probablement été évité à court terme, il ne pouvait être exclu sur le moyen à long terme.

## **Efficiences**

### ***Calendrier des versements***

La pertinence de l'enveloppe d'AMF est restée élevée tout au long de l'opération. En 2017, la continuité de l'aide de l'UE en Tunisie était précieuse, au vu de la détérioration de la position budgétaire (le déficit public s'élevait à 6,5% en 2017). En 2019, les deuxième et troisième tranches sont arrivées à un moment où la croissance ralentissait (tombant à 1 %) et où des obligations de remboursement considérables étaient arrivées à échéance (2 milliards d'euros). En 2018, l'absence de décaissement d'AMF a été compensée par un appui budgétaire provenant d'autres donateurs et institutions financières internationales (IFI), ainsi que par les financements levés auprès des banques nationales (en devises étrangères).

### ***Adhésion aux réformes***

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<sup>12</sup> Les économies auraient été moindres dans le cadre du scénario 2, puisqu'il est estimé que le gouvernement se serait davantage appuyé sur des coupes dans les investissements publics. En effet, en 2019, le taux d'inflation réel (7,1 %) était plus proche du taux maximal (7,9 %) par rapport à 2017 (taux d'inflation de 4,8 %).

Les réformes liées à l'AMF étaient alignées sur le programme de réformes que les autorités s'étaient déjà engagées à respecter. Toutefois, les autorités n'étaient pas disposées à en assumer le coût. En outre, l'expression d'une volonté politique des hauts dirigeants, des déclarations publiques en faveur des réformes et des efforts visant à remporter une adhésion plus grande aux réformes en-dehors du gouvernement faisaient systématiquement défaut. D'autres éléments ont également contribué au blocage des réformes, notamment l'instabilité politique découlant des fréquents changements de gouvernement et les fortes demandes socio-économiques.

### **Capacités**

Les problèmes de capacités ont entraîné des retards dans la mise en œuvre des réformes. Dans certains cas, des programmes d'assistance technique complémentaire dirigés par d'autres donateurs ont joué un rôle important dans l'avancement des réformes (par ex. assistance technique de la Banque mondiale dans le domaine des réformes du dispositif de sécurité sociale). Dans d'autres cas, le problème prenait davantage sa racine dans un manque de coordination de la part des autorités, problème qui aurait en partie dû être réglé grâce à l'intensification des travaux de coordination des principaux donateurs et des IFI à partir de 2018.

### **Liaison et procédures de contrôle**

Les difficultés structurelles auxquelles l'administration tunisienne était confrontée ont eu un effet indéniable sur l'efficacité des procédures. Néanmoins, la liaison avec les autorités était plus fluide dans le cadre de l'AMF II que de l'AMF I, puisque ces opérations étaient désormais mieux connues.

### **Adaptation de la mise en œuvre en raison d'événements externes imprévus**

Dans l'ensemble, l'évaluation de la satisfaction des conditions fait ressortir qu'il a été possible de trouver un équilibre entre flexibilité (par ex. réforme de la TVA) et fermeté, lorsque celle-ci s'avérait nécessaire (par ex. loi sur la CdC). Rien n'indique que l'UE a été trop flexible dans le cadre de l'AMF II, malgré les critiques générales formulées par les experts interrogés, les IFI et les donateurs eux-mêmes, selon lesquels la communauté internationale est plutôt laxiste en Tunisie et ne promeut pas efficacement le changement.

### **Visibilité du programme**

Comme prévu, la visibilité de l'instrument d'AMF auprès du grand public était très limitée, ne provoquant aucun problème d'acceptation. Par contre, le programme du FMI a essuyé davantage de critiques.

### **Valeur ajoutée de l'UE**

En termes financiers, l'opération d'AMF a clairement apporté une valeur ajoutée de l'UE, puisque les États membres seuls n'auraient probablement pas fourni une aide aussi conséquente sous la forme d'appui budgétaire, en plus de l'aide assez exceptionnelle qu'ils apportaient déjà. La valeur ajoutée de l'UE découle également des modalités associées à l'opération d'AMF, qui étaient très favorables (taux préférentiels de 0,3-0,75 %, échéance de 13-16 ans, en fonction des tranches). Ces modalités sont généralement équivalentes à celles offertes par d'autres donateurs.

Symboliquement, l'opération d'AMF II a envoyé un signal fort de soutien de l'UE à la Tunisie, répondant aux attentes que l'UE interviendrait en cas de crise, compte tenu du partenariat privilégié entre l'UE et la Tunisie et de la transition politique de la Tunisie. Elle a été accueillie favorablement malgré un certain scepticisme public quant à l'efficacité de l'aide internationale et aux priorités des donateurs en général.

L'AMF II a renforcé la confiance et, associée à l'aide du FMI, a empêché la défiance envers l'économie tunisienne d'augmenter davantage. Elle a également renforcé la mise en œuvre des réformes clés et a joué un rôle important dans l'indépendance de la CdC. L'enquête réalisée auprès des experts suggère que l'UE aurait pu utiliser son effet de levier pour promouvoir des réformes structurelles plus importantes, notamment une réformes des entreprises publiques ou de l'administration. Toutefois, si l'UE avait de telles ambitions, il faudrait qu'elle propose des aides d'un montant suffisant pour surmonter les résistances au changement. Enfin, les rôles auraient pu être mieux répartis entre l'AMF et le FMI, si les conditions croisées avaient été mieux utilisés et les efforts de l'UE mieux ciblés sur les domaines dans lesquels elle dispose d'une expérience et d'une expertise spécifiques.

## **2 – Jordanie**

### **Pertinence**

#### ***Montant de l'assistance***

La portée de l'aide de l'AMF II était assez limitée en comparaison avec d'autres opérations d'AMF. Les 200 millions d'euros fournis au titre de l'AMF II étaient inférieurs au montant demandé (350 millions d'euros) mais ils s'accompagnaient d'un engagement inscrit dans une déclaration conjointe du Parlement européen, du Conseil et de la Commission à étudier la possibilité d'accorder une AMF supplémentaire en cas de besoin.

En termes relatifs, le montant de l'AMF II à la Jordanie représentait 0,3 % du PIB en 2017 et 2019. Ce montant n'était pas négligeable, surtout associé à l'assistance combinée reçue sous la forme d'appui budgétaire de la part du FMI et de la Banque mondiale, et aux autres opérations d'appui budgétaire de l'UE (l'AMF II représentait 15 % du total).

#### ***Forme de l'assistance***

L'AMF II a été fournie sous forme de prêts très favorables proposés à des taux inférieurs à ceux du marché et selon des modalités plus avantageuses que celles du FMI. Au vu du montant de l'opération et des principaux facteurs propres à la Jordanie (revenu par tête, viabilité de la dette, niveau de pauvreté), une AMF sous forme de don ou intégrant une composante de don n'était pas considérée comme une solution viable.

#### ***Conditions associées à l'AMF II***

Le nombre de conditions de l'AMF II a été estimé comme approprié au cours des deux ans et demi de disponibilité de l'AMF II ; la majorité d'entre elles étaient raisonnablement ambitieuses et bien ciblées, au vu des priorités en termes de réformes. Toutefois, certaines conditions ont été considérées comme trop ambitieuses au vu du calendrier initial et des capacités du gouvernement (par ex. réforme fiscale), ou au contraire trop peu ambitieuses (par ex. secteur de l'eau).

Des éléments indiquent que l'éventail des domaines thématiques couverts par l'AMF II était approprié au vu du contexte politique, économique et institutionnel. Les conditions portant sur la nouvelle stratégie de gestion de la dette, ainsi que sur la restructuration de la direction de la Dette publique, étaient cruciales pour stabiliser la dette publique. Le désengagement du Bureau d'audit et les modifications apportées à la loi sur le Bureau d'audit visaient à accroître son indépendance et à améliorer la base juridique de la lutte contre la corruption. Alors qu'une réforme fiscale était nécessaire pour maintenir la viabilité, le dispositif de sécurité sociale devait être étendu et modernisé pour compenser l'impact économique au sein des groupes à risque. L'intégration des réfugiés syriens sur le marché du travail était indispensable du point de vue social, tandis que le plan d'action pour le secteur de l'eau visait à dégager des économies grâce à une meilleure efficacité énergétique, tout en protégeant les foyers vulnérables.

Pour la plupart, ces domaines de réforme étaient inextricablement liés soit aux objectifs de l'opération d'AMF (par ex. gestion des finances publiques, fiscalité) et/ou aux objectifs stratégiques extérieurs de l'UE dans la région (par ex. emploi et commerce).

### **Cohérence**

L'AMF correspondait bien au cadre stratégique général guidant les relations entre l'UE et la Jordanie, en particulier à l'accord d'association. La comparaison des conditions de l'AMF II aux priorités à court terme établies dans l'accord d'association montre comment ces conditions ont alimenté la mise en œuvre de l'accord. En outre, l'AMF II faisait partie de l'enveloppe plus large d'aide de l'UE à la Jordanie, comportant notamment une assistance sous forme de dons, des programmes d'appui budgétaire, une assistance humanitaire et une assistance technique, dont une grande partie ciblait les mêmes domaines que l'AMF II (gestion des finances publiques, aide à l'intégration des réfugiés syriens). L'AMF II présentait des synergies par rapport aux programmes d'autres organisations internationales, notamment du FMI, de la Banque mondiale et de l'Agence française de développement (y compris du point de vue de la conditionnalité).

### **Efficacité**

#### ***Rôle et contribution de l'AMF à encourager la stabilisation macroéconomique***

Malgré les efforts visant à réduire les déficits du secteur public et à juguler le déficit du compte courant, la situation est restée difficile de 2016 à 2019, le taux de croissance du PIB n'ayant pas réussi à se stabiliser et le ratio dette publique-PIB ne cessant d'augmenter. Toutefois, les experts estiment que les résultats macroéconomiques auraient été moins favorables en l'absence de l'AMF II.

Les constatations de l'analyse contrefactuelle laissent penser que si la première tranche de l'AMF II n'avait pas été versée en 2017 (scénario 1), l'obtention d'un financement alternatif auprès de donateurs bilatéraux aurait été compliquée et très incertaine, tandis que la possibilité de puiser dans les réserves aurait été sérieusement limitée par des obligations de remboursement imminentes. Il aurait été impossible, tant économiquement que politiquement, de procéder à de nouvelles coupes dans les dépenses publiques ou à des privatisations. L'issue la plus probable aurait été que la Jordanie aurait comblé la plus grande partie du déficit de financement en résultant par l'émission de nouveaux emprunts sur les marchés intérieurs, le reste étant couvert par l'accroissement des efforts visant à freiner

l'évasion fiscale. Les mêmes possibilités auraient été ouvertes à la Jordanie si la seconde tranche n'avait pas été décaissée en 2019 (scénario 2).

Si la Jordanie n'avait bénéficié ni de l'AMF II ni du Mécanisme élargi de crédit du FMI (MEC du FMI) en 2017 ou en 2019, les conséquences auraient été plus graves, le défaut souverain étant la conséquence la plus probable.

### **Progrès réalisés dans les domaines de réforme structurelle**

La Jordanie a réalisé des progrès tangibles dans les domaines de réforme structurelle associés à l'AMF, remplissant ou dépassant les conditions de l'AMF II. Toutefois, certains de ces progrès ont récemment été entravés par la crise actuelle de la COVID-19.

À partir de 2021, le Registre national unifié (RNU) est arrivé au bout des étapes de la procédure d'extension ; une plateforme en ligne sert désormais à identifier et recueillir les principaux indicateurs concernant les familles pauvres. Cette plateforme s'est avérée particulièrement utile pour mettre en œuvre l'assistance sociale d'urgence en 2020, notamment les subventions aux boulangers. Au vu du rôle qu'elle a joué dans l'augmentation du nombre de bénéficiaires d'une aide entre 2016 et 2020, et pour mettre en lien au moins quinze organismes publics, des discussions évoquent actuellement la possibilité d'utiliser l'outil RNU pour fournir une aide ciblée concernant l'eau et l'électricité, les soins médicaux et l'assurance maladie.

Dans le domaine de la gestion des finances publiques, la stratégie de gestion de la dette (2019 - 2023) a été récemment mise à jour ; le mécanisme d'examen des plaintes a permis au gouvernement de lutter contre la corruption et de renforcer les obligations de rendre des comptes dans le domaine des marchés publics. Des étapes clés ont également été franchies dans le domaine de l'audit : l'architecture institutionnelle est désormais largement en place et certains développements tangibles sont en cours aux niveaux technique et législatif.

La Jordanie a réalisé des progrès constants dans le domaine de la réforme fiscale, mais les efforts doivent se poursuivre pour garantir les revenus durables dont a besoin le gouvernement. Des réformes plus profondes s'imposent également dans les domaines de l'intégration des réfugiés syriens, des comptes-rendus en matière de données socio-économiques, et de l'eau. Récemment, le déficit financier dans le secteur de l'eau s'est creusé, ce qui aggrave les problèmes budgétaires.

### **Conséquences sociales**

L'analyse contrefactuelle laisse penser que, si la première tranche de l'AMF II n'avait pas été décaissée, mais que le soutien du FMI avait été accordé (scénario 1), il n'y aurait eu que peu de répercussions sociales indirectes, grâce à des sources de financement alternatives qui auraient permis d'éviter les coupes gouvernementales.

Dans le cas du scénario 2 (pas de seconde tranche d'AMF II), malgré la disponibilité d'autres sources de financement, les réformes sociales auraient pu être confrontées à des risques en termes de mise en œuvre. Notamment, les réformes en matière de dispositifs de sécurité sociale, de politique fiscale et d'accès à l'emploi / à la formation pour les réfugiés auraient été plus lentes et superficielles. Ceci aurait pu produire un impact négatif sur la situation sociale en Jordanie, entraînant par exemple des retards dans l'établissement du RNU et une intégration plus lente des réfugiés syriens. Il est également probable que le ciblage aurait

souffert de dommages à plus long terme découlant des faibles progrès dans l'amélioration des capacités administratives / de contrôle. Dans ce scénario, toutefois, certaines augmentations des taxes sur les ventes affectant les foyers les plus pauvres (par ex. denrées alimentaires) aurait été évitées, ce qui aurait pu générer des retombées sociales positives.

En l'absence de l'AMF et du soutien du FMI (scénario 3), la probable crise de la dette souveraine aurait eu de graves implications sociales, telles que récession économique, augmentation des taux de chômage, niveaux élevés d'inflation et coupes affectant les salaires et les services publics, et l'ensemble aurait entraîné des répercussions négatives importantes sur la situation sociale en Jordanie.

### **Viabilité de la dette**

Malgré certaines tentatives réussies de réduire les déficits du secteur public et malgré l'aide du FMI et l'AMF II, la Jordanie a accumulé de nouvelles dettes entre 2016 et 2019, bien qu'à un rythme moins soutenu. Ce ralentissement n'a pas suffi à inverser les effets de la trajectoire d'accumulation de dette intenable des années précédentes ; en 2020, le gouvernement jordanien a sollicité une aide supplémentaire auprès du FMI et de l'UE<sup>13</sup> (avant le début de la pandémie de COVID-19).

L'analyse des résultats les plus probables en l'absence de la première tranche de l'AMF II en 2017 (scénario 1) ou de la seconde tranche en 2019 (scénario 2) laisse penser que les possibilités ouvertes à la Jordanie auraient été similaires aux deux dates : elle aurait remplacé l'AMF quasiment entièrement par des emprunts sur le marché intérieur. À moyen terme, cela aurait entraîné une augmentation du coût des emprunts, puisque les marchés financiers intérieurs proposaient des taux d'intérêt bien plus élevés que les taux favorables de l'AMF II. Ces deux années, les principaux indicateurs macroéconomiques seraient restés essentiellement inchangés par rapport au scénario de référence et auraient eu peu d'influence sur le risque de défaut de la Jordanie.

Sans l'AMF II ou l'aide du FMI (scénario 3), la Jordanie aurait probablement connu un défaut souverain. Pour commencer, elle n'aurait probablement plus eu accès aux marchés financiers internationaux, ce qui aurait encore augmenté le déficit de financement. Les efforts initiaux visant à couvrir ce déficit par des emprunts intérieurs auraient engendré une détérioration des conditions économiques, une inflation et l'abandon de l'arrimage de la monnaie. Ceci aurait entraîné à son tour une déstabilisation accrue de l'économie, débouchant sur le défaut souverain, bien que le calendrier exact des événements soit difficile à établir.

### **Efficiences**

#### ***Calendrier des versements***

La première tranche a été décaissée en 2017, dans un contexte économique et social particulièrement complexe, sur fond d'augmentation des prix du pétrole et d'ajustement des prix de l'électricité, et de problèmes de croissance faible, d'augmentation du chômage et de réduction des investissements. En 2019, lorsque la seconde tranche a été décaissée (avec retard), la Jordanie se trouvait toujours dans un contexte difficile, marqué par une croissance ralentie, des investissements peu nombreux et une baisse des recettes fiscales attendues. Une

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<sup>13</sup> AMF II de 500 millions d'euros, adoptée par l'UE en janvier 2020, avant la pandémie de COVID-19.



combinaison de mesures fiscales et d'emprunts sur les marchés nationaux a permis de combler le déficit causé par le retard du décaissement de la seconde tranche d'AMF II.

### **Adhésion aux réformes**

Malgré un processus de mise en œuvre assez long de la plupart des conditions, l'évaluation de l'AMF II accordée à la Jordanie n'a révélé aucun problème grave découlant d'un manque d'adhésion. Néanmoins, des problèmes de manque de transparence et de décalage entre les discours et les actions concrètes ont été rapportés par les personnes interrogées. Les avis sur le degré d'adhésion aux réformes en Jordanie différaient quelque peu : certaines personnes interrogées ont reconnu un degré d'adhésion plus élevé intégré à une approche politico-institutionnelle générale et une volonté du monarque à entreprendre des réformes structurelles en veillant à ce que l'adhésion soit maintenue ; d'autres étaient plus sceptiques, notant une absence d'obligation de rendre des comptes, les autorités souscrivant à des programmes politiques qu'elles échouaient ensuite à mettre en œuvre de la manière convenue.

L'adhésion à l'AMF II n'était pas la même selon les organismes de mise en œuvre et les domaines de réforme. Alors que certains ministères chargés de la mise en œuvre ont au départ fait preuve d'une volonté à adhérer aux réformes (viabilité de la dette, ministère des Finances), d'autres organismes ont peu adhéré aux mesures et ont essayé de résister aux réformes (comptes-rendus concernant les données socio-économiques). Les processus de contrôle et législatif imprévisibles du Parlement jordanien, ainsi que la rotation très élevée des fonctionnaires, ont ajouté aux difficultés et rendu les questions d'adhésion encore plus complexes. Sur une note positive, le fort degré d'engagement en faveur de l'AMF aux niveaux les plus hauts ont permis de vaincre la résistance initiale (par ex. réforme des marchés publics), ce qui a permis d'établir des changements en qui dépassaient de loin les exigences énoncées dans les conditions.

### **Capacités**

Il a été rapporté que les autorités réagissaient très lentement, à cause de l'importance de la bureaucratie et de l'indécision du secteur public, en particulier pour certaines conditions (par ex. Bureau d'audit, marchés publics), ce qui a ralenti le processus. Les personnes interrogées ont également mentionné d'autres contraintes pesant sur les capacités, notamment le manque de ressources adéquates, la rotation du personnel, l'excès de formalités administratives, la lourdeur des pratiques administratives et la complexité hiérarchique. La réalisation de certaines des réformes dépendait fortement d'une assistance technique extérieure (par ex. marchés publics, RNU).

### **Liaison avec les autorités et procédures de contrôle**

Malgré les difficultés structurelles auxquelles était confrontée l'administration jordanienne — qui ont joué sur l'efficacité des procédures —, l'AMF II a apporté des améliorations par rapport à l'AMF I (effet d'apprentissage).

### **Adaptation de la mise en œuvre en raison d'événements externes imprévus**

Dans l'ensemble, la Commission européenne a été considérée comme flexible en termes de mise en œuvre et de décaissements (par ex. réforme fiscale), tout en restant ferme dans les

cas où cela s'avérait nécessaire (par ex. réforme des marchés publics). Aucune renonciation n'a été demandée dans le cadre de l'AMF II.

### **Visibilité du programme**

La visibilité de l'AMF en qualité d'instrument spécifique était très limitée au sein du grand public jordanien, mais les autorités et les parties prenantes traitant directement de questions macroéconomiques connaissaient bien l'opération. Même si le grand public se méfie généralement des aides étrangères, au vu de la situation de la dette jordanienne, rien n'indique que l'AMF II a suscité de problèmes d'acceptation particuliers.

### **Valeur ajoutée de l'UE**

Par rapport aux autres sources de financement (y compris au MEC du FMI), le premier avantage de l'AMF II était ses conditions très favorables, qui comprenaient un taux d'intérêt relativement bas, une échéance et une période de grâce longues, l'ensemble permettant au gouvernement jordanien de réaliser des économies budgétaires significatives. La Jordanie a également bénéficié d'un fort effet de signal tant de l'AMF II que du MEC du FMI, tandis que les réformes et mesures d'ajustement liées ont permis d'obtenir la confiance des investisseurs / marchés financiers internationaux et des principaux créanciers.

L'assistance au titre de l'AMF II revêtait une importance symbolique, concrétisant l'attente que l'UE intervienne pour apporter son aide en cas de graves crises d'ordre financier, économique ou en lien avec les réfugiés, conformément aux engagements pris en 2016 lors de la Conférence de Londres.

Des éléments indiquent que l'AMF II a usé de son influence politique pour garantir l'avancement des réformes cruciales. Bien que l'importance de l'influence de l'UE varie en fonction du domaine de réforme, la plupart des parties prenantes s'entendaient pour affirmer qu'en l'absence de l'AMF II, le processus de réforme aurait été plus lent et moins cohérent. L'adoption d'une position ferme et constante a permis à l'UE de faire accepter des réformes plus efficaces et étendues dans le domaine des marchés publics, et d'avancer davantage dans le domaine des dispositifs de sécurité sociale, en particulier, l'accent étant placé sur la responsabilité et la bonne gouvernance. Les experts estiment que la progression des réformes initiées par le biais de l'AMF pourrait restaurer la confiance des investisseurs en Jordanie.

## **3 – Évaluation comparative**

### **Contexte géopolitique et macroéconomique**

Les deux pays du voisinage méridional bénéficiant des opérations d'AMF au cours la période susmentionnée partageaient de nombreux points communs : la Tunisie et la Jordanie sont des économies de taille comparable, présentant des niveaux de développement similaires ; elles sont affectées par de nombreuses sources communes de vulnérabilité (notamment d'importants déficits budgétaires et du compte courant, une faible concurrence, des régimes de protection sociale fondés sur des subventions universelles, des inégalités et des taux de chômage obstinément élevés). L'une des différences entre les deux pays est la trajectoire de la dette précédant l'opération d'AMF, qui était plus intenable dans le cas de la Jordanie.

Par ailleurs, l'UE manifestait le souhait de soutenir les deux pays pour des motifs géopolitiques. Toutefois, le contexte était différent en Tunisie et en Jordanie. La Tunisie est le seul pays où la transition politique se poursuit depuis le Printemps arabe. Elle est fortement

orientée vers l'UE, comme le montre une analyse des flux commerciaux, d'IDE et d'aide extérieure. Au contraire, la Jordanie n'a pas connu de changement de régime et est davantage intégrée à la géopolitique du Moyen-Orient.

Les principaux déclencheurs des opérations différaient eux aussi entre les deux pays. En Tunisie, les principaux déclencheurs étaient les menaces pour la sécurité intérieure, associées aux répercussions de la crise en Libye, tandis qu'en Jordanie, ils étaient liés aux conséquences économiques de la crise syrienne, et en particulier à l'afflux de réfugiés syriens.

### **Conception et mise en œuvre des deux opérations**

La conception et la mise en œuvre des deux opérations partagent de nombreuses caractéristiques communes. Dans les deux cas, l'étape de conception a été longue, la demande d'AMF et la signature du protocole d'accord étant séparées d'un délai de dix-huit à vingt mois. Dans les deux cas, le deuxième décaissement est intervenu en juillet 2019, soit vingt et un mois après le premier, à cause de la lenteur à laquelle les réformes clés ont été mises en œuvre.

Bien que l'AMF en faveur de la Tunisie soit plus importante en termes absolus et relatifs, le montant de l'assistance était approprié dans les deux cas si l'on tient compte de considérations de partage des charges et de besoins de financement résiduel. Le financement d'AMF a été accordé aux deux pays sous la forme de prêts à des conditions très favorables, complétant ainsi l'aide de l'UE fournie sous forme de dons.

Les deux opérations prévoyaient un nombre raisonnable de conditions ciblant certains domaines thématiques communs, tels que la gestion des finances publiques, la fiscalité, les dispositifs de sécurité sociale et le marché du travail. Dans l'ensemble, le choix des conditions a été jugé adéquat. Des domaines thématiques pertinents ont été pris en considération et les conditions correspondaient aux calendriers de réforme de chaque pays. À plusieurs égards, les conditions de l'AMF II présentaient une continuité par rapport à l'AMF I et s'appuyaient sur les leçons tirées des expériences passées. Dans le cas de la Tunisie, reflétant l'ampleur de l'opération et l'effet de levier exercé par l'UE dans le pays, l'accent était légèrement plus fort sur les actions s'inscrivant dans un processus de réforme à plus long terme, comme en témoignent notamment les conditions liées au changement législatif. L'opération tunisienne comportait également des conditions qui promouvaient clairement les intérêts économiques de l'UE (parallèlement aux priorités du pays), ce qui peut poser un problème d'un point de vue de principe.

### **Résultats et effets des deux opérations**

#### *Ajustement macroéconomique*

Dans les deux pays, la situation macroéconomique est restée difficile au cours de la période 2016-2019. Toutefois, elle aurait été pire en l'absence d'AMF, au moins en Tunisie, où l'on estime que le déficit de financement aurait été comblé par une augmentation des financements intérieurs et des coupes dans les investissements publics. Ce scénario hypothétique aurait eu des répercussions faibles à modestes sur le PIB, aurait renforcé la tension inflationniste et également entraîné indirectement des conséquences sociales négatives (augmentation du coût de la vie et perte de revenus).

Dans les deux pays, la viabilité de la dette serait restée quasiment inchangée à ce qui avait été observé (référentiel), dans le cas où il n'y aurait pas eu d'AMF. Le coût des emprunts aurait cependant augmenté, puisque les financements nationaux étaient plus onéreux que les modalités d'AMF et que la perte de confiance aurait indirectement produit un effet sur les taux d'intérêts pratiqués par les investisseurs privés.

En l'absence d'AMF et de financement du FMI, il est probable que la Jordanie aurait connu un défaut souverain entraînant de graves conséquences économiques et sociales. De son côté, la Tunisie aurait très probablement évité le défaut, au moins à court terme, mais au prix d'importantes répercussions économiques et sociales.

#### *Ajustement structurel*

Au sens strict, toutes les conditions (sauf une en Tunisie) ont été remplies. Les deux pays ont réalisé des progrès tangibles, y compris dans des domaines socialement pertinents. Toutefois, dans certains domaines, les réformes ont été plus difficiles. Les problèmes de capacités étaient l'un des facteurs entraînant des retards de mise en œuvre des réformes dans les deux pays, associés une instabilité politique et à des difficultés de coordination dans le cas de la Tunisie.

Plusieurs leçons ont été tirées de la comparaison des deux pays, ayant trait à la conception des conditions, appelant à une utilisation parcimonieuse des conditions croisées et à une focalisation sur les domaines dans lesquels l'UE est fortement impliquée (par le biais d'autres programmes / instruments / opérations d'AMF passées). D'autres aspects se sont avérés utiles pour favoriser l'adhésion (expérience de la Tunisie concernant la matrice des donateurs) ou auraient pu l'être s'ils avaient été mis en œuvre (communication publique sur les avantages des réformes).

#### **4 – Analyse régionale**

D'après la documentation, les retombées de la croissance et les effets de l'assistance macroéconomique au-delà des frontières interviennent par le biais de deux voies de transmission : les voies macroéconomiques (commerce, tourisme, IDI, aides extérieures), d'un côté, et les voies non macroéconomiques (politique, confiance, instabilité politique, préoccupations sécuritaires), de l'autre. La Tunisie et la Jordanie sont toutes les deux des économies de petite taille et la région MENA n'est que partiellement intégrée. De ce fait, la Tunisie et la Jordanie subissent fréquemment des chocs et sont principalement exposées aux chocs de croissance tirant leurs origine hors de la région.

Il est estimé que les deux opérations d'AMF ne produiront directement que des incidences macroéconomiques limitées dans la région. Toutefois, associées à l'enveloppe du FMI, ces incidences devraient être plus conséquentes. Il se peut que des retombées se soient produites par des voies moins quantifiables, telles que l'image et la confiance. Il est également probable que ces opérations aient soutenu la politique migratoire de l'UE et envoyé un signal de soutien démocratique dans la région.

#### **Executive summary (Arabic)**

#### **الملخص التنفيذي**

يعرضُ هذا التقرير نتائج عمليات المساعدة المالية للاقتصاد الكلي المقدّمة الى دول الجوار الجنوبية والتي تشمل تونس والمملكة الأردنية الهاشمية ( والذي تم تنفيذه خلال الفترة 2016-2019). وقد تم إجراء التقييم بتكليف من المديرية العامة للشؤون الاقتصادية والمالية (DG ECFIN) ، حيث تم تنفيذ العمل من قبل شركة ICF وبالتعاون مع Cambridge Econometrics وخبراء اقتصاديين محليين وإقليميين.

## خلفية عامة لعمليات المساعدة المالية للاقتصاد الكلي (المرحلة الثانية)

### تونس

طلبت السلطات التونسية عملية مساعدة مالية للاقتصاد الكلي جديدة (MFA II) في أغسطس 2015. إذ أن عملية المساعدة المالية للاقتصاد الكلي في مرحلته الأولى MFA I ، على الرغم من منحه في أعقاب ثورة الياسمين 2011 ، لم يبدأ إلا مؤخرًا<sup>14</sup>. جاء طلب MFA II بعد ثلاث هجمات إرهابية كبرى في عام 2015<sup>15</sup>، تبعتها محاولة غزو من قبل داعش في مارس 2016<sup>16</sup>. أثرت هذه التهديدات الأمنية إضافة الى ما رافقها من الوضع الاقتصادي الصعب وتداعيات الأزمة في ليبيا ، بشكل كبير على قطاع السياحة والنقل ، وكذلك الاستثمار ، وبالتالي على الاقتصاد التونسي بأكمله ، حيث انخفض نمو الناتج إلى 1.2٪ فقط في عام 2015.

تمت الموافقة على المساعدة المالية للاقتصاد الكلي MFA II من قبل البرلمان والمجلس الأوروبي في يوليو 2016 ، بعد فترة وجيزة من مقترح من قبل المفوضية. كانت أهدافها هي دعم استعادة التمويل الخارجي المستدام لتونس ، واستكمال الموارد المقدمة في إطار برنامج صندوق النقد الدولي ، ودعم برنامج الإصلاح الطموح الذي بدأت السلطات التونسية في إطار المرحلة الأولى من المساعدة المالية للاقتصاد الكلي MFA I .

تتكون المساعدة المالية للاقتصاد الكلي MFA II من مبلغ يصل إلى حوالي 500 مليون يورو على شكل قروض طويلة الأجل . حيث تم ربط صرف الدفعتين الثانية والثالثة بـ 15 شرطًا محددًا للسياسة في سبعة مجالات إصلاح هي: (1) إدارة المالية العامة (PFM) وإصلاح الخدمة المدنية ؛ (2) الضرائب ؛ (3) الحماية الاجتماعية؛ (4) سوق العمل؛ (5) القطاع المالي؛ (6) المناخ الاستثماري؛ و (7) السياحة.

تم صرف دفعات المساعدة المالية للاقتصاد الكلي MFA II بالكامل، حيث صُرفت الدفعة الأولى والبالغة 200 مليون يورو في أكتوبر 2017 ، بعد فترة وجيزة من التصديق على مذكرة التفاهم من قبل البرلمان التونسي وصرف الدفعة الأخيرة من برنامج المساعدة المالية للاقتصاد الكلي الأول MFA 1 . تم صرف الدفعتين الثانية والثالثة 150 مليون يورو لكل منهما) في عام 2019 ، بعد فترة تأخير طويلة ، مرتبطة بالتقدم البطيء في تلبية بعض الشروط.

### الأردن

منذ العام 2015 ، ساهمت مجموعة من العوامل - بما في ذلك العجز الكبير في القطاع العام ، والصراعات الإقليمية ، وانخفاض التدفقات الخارجية ، وارتفاع التزامات سداد الديون - في تباطؤ النمو الاقتصادي في

<sup>14</sup> تم تنفيذ برنامج المساعدة المالية للاقتصاد الكلي الأول خلال الفترة 2015-2017

<sup>15</sup> هجوم متحف باردو في آذار ، هجوم انتحاري في حزيران، وتفجير انتحاري في تشرين الثاني.

<sup>16</sup> صحيفة الجارديان (2016)، مقالة متاحة على الرابط التالي: 'Tunisia border attack by suspected Isis forces kills 52.' Available at: <https://www.ft.com/content/e7a728be-e445-11e5-a09b-1f8b0d268c39>

الأردن ووضع الدين الخارجي للبلاد على مسار غير مستدام. ارتفع إجمالي الدين العام ، الذي كان يرتفع منذ عام 2008 ، إلى 95.1٪ من الناتج المحلي الإجمالي في عام 2016 ، مما زاد من ضعف المالية العامة. في المقابل أتاحت التعديلات الكبيرة في السياسات للأردن الحفاظ على استقرار الاقتصاد الكلي ، إلا أن الضغوط المتزايدة على الخدمات العامة نتيجة التدفق المستمر للاجئين السوريين استمرت في التأثير بشكل كبير على الاقتصاد.

كان الصرف في برنامج المساعدة المالية للاقتصاد الكلي MFA II ، من بين أمور أخرى ، يعتمد على تحقيق مرضي لـ 11 شرطاً هيكلياً عبر خمسة مجالات هي: إدارة المالية العامة ؛ تحصيل الضرائب؛ شبكات الأمان الاجتماعي؛ العمالة والتجارة؛ و المياه، تم صرف أول دفعة بقيمة 100 مليون يورو في أكتوبر 2017 ، أي بعد ما يقرب من 9 أشهر من اعتماد MFA II من قبل البرلمان والمجلس الأوروبي . ثم بعد ذلك استغرق الأمر 20 شهرًا أخرى قبل صرف الدفعة الثانية ، في يونيو 2019.

### الغرض من التقييم

يُقيم هذا التقرير مساهمة برنامج المساعدة المالية للاقتصاد الكلي في تسهيل التعديلات الاقتصادية الكلية والهيكلية في كل من تونس والأردن ، حيث يختبر هذا التقرير:

- ما إذا كانت الاعتبارات المسبقة التي تحدد تصميم وشروط العمليات مناسبة ، مع الأخذ بعين الاعتبار الإطار الاقتصادي والسياسي والمؤسسي ؛
  - وما إذا كانت نتائج البرامج قد حققت أهدافها المرجوة .
- وبما أن هذا التقييم يغطي بلدين ، فإنّ الهدف الآخر هو توضيح أوجه التشابه والاختلاف والأنماط الرئيسية من خلال دراسة التداخلات بينها وكذلك تقييم التأثير الإقليمي لبرامج المساعدة المالية للاقتصاد الكلي في دول الجوار الجنوبية للاتحاد الأوروبي.

### المنهجية

استخدم التقييم في هذا التقرير الأسلوب متعدد الطرق وتم تنفيذه بما يتماشى مع المتطلبات المنصوص عليها في إرشادات أفضل الممارسات للمفوضية الأوروبية. حيث اعتمد على العديد من أساليب التحليل النوعية والكمية لتوفير قاعدة أدلة شاملة لتقييم النتائج والتأكد من صدقها وموثوقيتها. كما وتم استخدام الطرق التالية لبناء القاعدة الأساسية للنتائج التي تم الحصول عليها:

- **بحث مكتبي** يستلزم مراجعة وتحليل جميع المؤلفات ذات الصلة والوثائق الرسمية والبيانات الاقتصادية الكلية.
- **مقابلات شبه منظمة مع أصحاب المصلحة والشركاء الرئيسيين** ، وجميعها تتم عن بعد عبر شبكة الانترنت. حيث أجريت المقابلات مع الموظفين المعنيين من المفوضية الأوروبية ، وخدمة العمل الخارجي الأوروبي (EEAS) ، وبعثة الاتحاد الأوروبي في تونس وعمان ، ومسؤولين من الوزارات ، والمؤسسات ذات العلاقة في تونس والأردن ، وممثلين عن المؤسسات المالية الدولية (صندوق النقد الدولي (IMF) ، والبنك الدولي (WB) بالإضافة إلى المانحين الثنائيين الرئيسيين.
- **جلسة عصف ذهني داخلية حول السيناريوهات الواقعية** التي جرت في المرحلة الأولى من التقييم وشارك فيها الأعضاء الأساسيون في ICF وفريق Cambridge Econometrics ، بالإضافة إلى خبراء محليين وإقليميين .

- **مسوحات الخبراء** التي جمعت آراء خبراء مختارين حول وضع الاقتصاد الكلي في تونس والأردن والبدائل المتاحة للسلطات في حالة غياب برامج المساعدة المالية للاقتصاد الكلي. كما واستكشف المسح دور ومساهمة المساعدة المالية للاقتصاد الكلي في مرحلته الثانية MFA II في تعزيز التغيير الهيكلي.
- **فرق وحلقات مناقشة مع أعضاء المجتمع المدني المحلي** ، بما في ذلك الصحفيين وممثلي القطاع الخاص والأكاديميين.
- **دراسات حالة متعمقة** حول الإصلاحات التي تشجعها برامج المساعدة المالية للاقتصاد الكلي في مجال الرقابة الخارجية.
- **تحليل القدرة على تحمل الديون (DSA)** ، وتقييم استدامة الدين العام التونسي والأردني قبل وبعد المساعدة المالية للاقتصاد الكلي MFA II .
- **تحليل الأثر الاجتماعي (SIA)** ، ودراسة المدى الذي يمكن أن تخفف من خلاله المساعدة المالية للاقتصاد الكلي MFA II التأثير الاجتماعي للأزمة.
- **ورش عمل للتحقق من النتائج عن بعد عبر شبكة الانترنت** ، حضرها أصحاب المصلحة في الاتحاد الأوروبي ، وممثلون عن السلطات الحكومية ومسؤولون محليون من صندوق النقد الدولي والبنك الدولي. كان الهدف منها مناقشة نتائج الدراسة والتوصيات لبرامج المساعدة المالية للاقتصاد الكلي في المستقبل.

## نتائج واستنتاجات التقييم

### 1- تونس

#### حجم المساعدة

كانت حزمة المساعدة المالية للاقتصاد الكلي MFA II التونسية والبالغة 500 مليون يورو كبيرة من الناحيتين المطلقة والنسبية. الأمر الذي يعني تغييراً تدريجياً مقارنةً بـ 300 مليون يورو في برنامج المساعدة المالية للاقتصاد الكلي في مرحلته الأولى MFA I. بغض النظر عن أوكرانيا ، كانت عملية المساعدة المالية للاقتصاد الكلي في مرحلته الثانية MFA II لتونس أكبر عملية مساعدة مالية للاقتصاد الكلي منذ عام 2000<sup>17</sup>، إذ شكلت حوالي 0.6 ٪ و 0.9 ٪ من الناتج المحلي الإجمالي في عامي 2017 و 2019 ، على التوالي . ويمثل هذا أكثر من الإنفاق العام على أحد برامج المساعدة الاجتماعية الرئيسية في تونس) البرنامج الوطني لمساعدة الأسر (Programme National d'Aide aux Familles Nécessiteuses, PNAFN)، والذي يمتص عادة حوالي 0.5 ٪ من الناتج المحلي الإجمالي سنوياً. مع الأخذ في الاعتبار تقاسم الأعباء ، تم تقييم حجم تمويل المساعدة المالية للاقتصاد الكلي على أنه مناسب بشكل عام.

#### شكل المساعدة

تم تقديم تمويل MFA كقرض بقيمة 500 مليون يورو بشروط ميسرة للغاية ، الأمر الذي يعكس الشروط التي يمكن أن يحصل عليها الاتحاد الأوروبي في السوق. استبعدت المبادئ التوجيهية المستخدمة لتحديد شكل

<sup>17</sup> الاتحاد الأوروبي (2019). المساعدة المالية للاقتصاد الكلي للدول الشركاء خارج الاتحاد الأوروبي ، متاحة على الرابط التالي:

[https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries\\_en#documents](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en#documents)

المساعدة (بما في ذلك دخل الفرد في تونس ، والقدرة على تحمل الديون ، ومستوى الفقر) أي مكون للمنحة . بالنظر إلى النوع الآخر من الدعم المالي الذي يقدمه الاتحاد الأوروبي إلى تونس في شكل منح ، كان شكل القرض الخاص بالمساعدة المالية للاقتصاد الكلي MFA II مناسباً.

### الشروط المرتبطة بدعم المساعدة المالية للاقتصاد الكلي MFA

تتوافق جميع المجالات التي تناولتها شروط المساعدة المالية للاقتصاد الكلي MFA II مع المجالات ذات الأولوية للإصلاح. في العديد من المجالات (التدقيق الخارجي وشبكة الأمان الاجتماعي)، أظهرت شروط المساعدة المالية للاقتصاد الكلي الثاني MFA II استمرارية مع برنامج المساعدة المالية للاقتصاد الكلي في مرحلته الأولى MFA I ، الأمر الذي سهّل المزيد من التقدم المتواصل. تم دمج الدروس المستفادة من برنامج المساعدة المالية للاقتصاد الكلي في مرحلته الأولى MFA I عند تصميم شروط برنامج المساعدة المالية للاقتصاد الكلي في المرحلة الثانية MFA I: حيث أن مستوى الطموح فيما يتبع شروط شبكة الأمان الاجتماعي كان أفضل في المرحلة الثانية مقارنة بالمرحلة الأولى MFA I ؛ كما أن التدابير المتعلقة بإعداد منطقة التجارة الحرة العميقة والشاملة (DCFTA) تم استبعادها من نطاق برنامج المساعدة المالية للاقتصاد الكلي الأول MFA I.

على الرغم من التوافق القوي بشكل عام مع أجندة الإصلاحات الخاصة بالدولة ، كانت هناك العديد من الحالات التي كانت فيها مصالح الاتحاد الأوروبي واضحة أيضاً في صياغة شروط محددة (وصول الشركات ، بما في ذلك الشركات الأجنبية ، إلى المشتريات العامة ؛ وتخفيف قواعد الوصول إلى الأسواق للمستثمرين ، بما في ذلك المستثمرون الأجانب ؛ اتفاقية Euro-Aviation ) قد يثير هذا مخاوف بشأن المساعدة "المقيدة" ، مع كون الشرط المتعلق باتفاقية الطيران الأوروبية متوسطة إشكالية بشكل خاص.

كان هناك جهد لتحقيق التوازن وتكييف أنواع مختلفة من الظروف مع السياق التونسي . تم إدراج تدابير ملموسة ذات آثار فورية (مثل المشتريات العامة وسوق العمل) باعتبارها شروطاً للمساعدة المالية للاقتصاد الكلي ، مما يعكس الرغبة في الإصلاح الملموس بين المجتمع المدني التونسي . دفعت عدة شروط للتنفيذ الفعلي كوسيلة لمتابعة الخطوات السابقة ومعالجة الضعف العام في التنفيذ (كما هو موضح في فرق وحلقات المناقشة) . تطلبت ثلاثة شروط موازية تغييراً تشريعياً ، الأمر الذي يعكس نفوذ الاتحاد الأوروبي في الدولة . على الرغم من التحديات الاعتيادية ، فقد اعتُبر الشرط المتعلق بالموافقة البرلمانية للقانون الجديد بشأن محكمة التدقيق (Cour des Comptes CdC) مبرراً بشكل خاص ، بعد الأخذ بعين الاعتبار (1) مشاركة الاتحاد الأوروبي في هذا الجانب المحدد من خلال أدوات أخرى ؛ و (2) الفوائد المتوقعة من حيث الاستقلال الإداري والمالي لـ CdC .

### الإتساق

جاء برنامج المساعدة المالية للاقتصاد الكلي MFA II متوافقاً بشكل جيد مع إطار السياسة العريضة الذي يوجه العلاقات بين الاتحاد الأوروبي وتونس (بما في ذلك اتفاقية الشراكة ، وسياسة الجوار الأوروبية (ENP) ، والشراكة المميزة ، و DCFTA (لا يزال قيد التفاوض)). وقد شكّلت جزءاً من حزمة أوسع من دعم الاتحاد الأوروبي لتونس ما بعد الثورة واستكملت بشكل مناسب برامج دعم ميزانية الاتحاد الأوروبي في العديد من المجالات . كان برنامج المساعدة المالية للاقتصاد الكلي MFA II متسقاً أيضاً مع المساعدة التي قدمتها المنظمات الدولية الأخرى ، وأبرزها صندوق النقد الدولي والبنك الدولي (بما في ذلك على مستوى الشروط المفروضة) . تكثفت جهود التنسيق بين المانحين في تونس خلال مسار MFA II ، كما يتضح من تنظيم بعثات



مشتركة رفيعة المستوى لدعم حوار السياسات واعتماد مصفوفات السياسات المشتركة (حيث يتم الاتفاق على الإصلاحات الاجتماعية والاقتصادية الرئيسية مع الحكومة التونسية والمسؤوليات بين الجهات المانحة).

## الفعالية

### دور ومساهمة المساعدة المالية للاقتصاد الكلي في تعزيز استقرار الاقتصاد الكلي

على الرغم من بعض النجاح في احتواء عجز القطاع العام (انخفض من 5.9٪ في 2016 إلى 4.1٪ في 2019) وارتفاع قليل في معدل نمو الناتج المحلي الإجمالي في 2018 ، بقي الوضع الاقتصادي صعباً خلال فترة تنفيذ برنامج المساعدة المالية للاقتصاد الكلي MFA II حيث يظهر ذلك من خلال عودة معدلات النمو المنخفضة في عام 2019 ، وتراكم الديون والاحتياجات الكبيرة للتمويل المرتفع.

في غياب الدفعة الأولى من المساعدة المالية للاقتصاد الكلي MFA II في عام 2017 (البديل 1) والدفعتان الثانية والثالثة (البديل 2) ، أشارت الأدلة إلى أن الخيار الأكثر منطقية كان الحصول على تمويل من الأسواق المالية المحلية وخفض الاستثمار العام . كانت مصادر التمويل المحتملة الأخرى غير مؤكدة: زادت تكلفة الاقتراض التونسي من الأسواق المالية الدولية بمرور الوقت ، وركز المانحون متعدّدوا الأطراف على الضغط من أجل تنفيذ برامجهم الحالية ، وكان دعم البلدان المانحة الثنائية أكبر بالفعل وغير قابل للتنبؤ به (يعتمد على الصادرات النفطية / الإيرادات للدول العربية). من المحتمل أن تكون تعديلات السياسة المالية (بخلاف تلك المتعلقة بالنفقات الرأسمالية) قد واجهت معارضة شديدة . فالمزيد من انخفاض قيمة الدينار التونسي غير معقول ، بالنظر إلى المناخ الاقتصادي والضغوط التضخمية في تلك السنوات.

بغض النظر عن تكلفة خدمة الدين ، إلا أن الجوانب السلبية الرئيسية لغياب المساعدة المالية كانت تتمثل في انخفاض الناتج المحلي الإجمالي نتيجة التخفيضات في الإنفاق العام (الناتج المحلي الإجمالي الحقيقي بنسبة 0.44-1.1٪ أقل بحلول عام 2025 مقارنة بخطط الأساس ، اعتماداً على البديل المعتمد) والضغوط التضخمية (معدل التضخم أعلى بمقدار 0.2-0.3 نقطة مئوية) نتيجة زيادة التمويل المحلي.

كان لاقتراض غياب كل من برنامج دعم MFA II وصندوق النقد الدولي ("البديل 3") آثار أكثر خطورة. تُمثل المدفوعات في إطار هذين البرنامجين ما يعادل 1.9 مليار (يورو) 1.4 مليار يورو لترتيب تسهيل برنامج دعم صندوق النقد الدولي (IMF EFF) و 500 مليون يورو للمساعدة المالية للاقتصاد الكلي MFA II). كما أنه من المحتمل أن تكون فجوة التمويل التي وُجدت بسبب غياب الدعم من صندوق النقد الدولي والاتحاد الأوروبي أعلى من ذلك ، لأنها كانت ستؤدي إلى فقدان الوصول إلى الأسواق الدولية بين عامي 2017 و 2019 (تمثل 2.8 مليار يورو في ذلك الوقت). يشير التحليل إلى أنه كان من الممكن تجنب التخلف عن السداد ، مع محاولة الحكومة بدلاً من ذلك تغطية الفجوة باستخدام مجموعة من الخيارات ، مثل التخفيضات في مستويات الاستثمار العام وزيادة إصدارات الدين المحلي . إلا أن من شأن ذلك أن يكون له تأثيرات كبيرة على آفاق النمو (انخفاض الناتج المحلي الإجمالي بنسبة 13٪ بحلول عام 2025 ، مقارنة بخطط الأساس) إضافة إلى الوضع الاجتماعي.

### التقدم المُتحقق في تنفيذ الإصلاح الهيكلي

تم صرف المساعدة المالية للاقتصاد الكلي MFA II بالكامل ، مع استيفاء جميع الشروط باستثناء شرط واحد . بالمفهوم الضيق ، تم تنفيذ الإجراءات كما حددها نص الشروط. يمكن اعتبار التنازل المتعلق بتخفيض متوسط معدل ضريبة القيمة المضافة مبرراً . إلى جانب استيفاء الشروط بالمعنى الدقيق للكلمة ، أحرزت تونس تقدماً

كبيراً في الإصلاح في مجالات معينة ، لا سيما على الصعيد التشريعي ، مع اعتماد البرلمان للقوانين الرئيسية (التدقيق الخارجي ، وشبكة الأمان الاجتماعي) ، وفي الجانب الفني ، مع إنشاء نموذج تسجيلي لاستهداف الأسر الضعيفة (شبكة الأمان الاجتماعي). أما في المجالات الأخرى (الإصلاح الضريبي ، مناخ الاستثمار) فقد كان التقدم أكثر تشتتاً ولم تعكس القرارات دائماً رغبة حقيقية في التغيير. على سبيل المثال ، بدلاً من التبسيط المتوقع بين المؤسسات الموجودة مسبقاً ، تمت إضافة هيكل جديد إلى الهيكل المؤسسي لتشجيع الاستثمار ، مما أضاف مرحلة أخرى من التعقيد.

حتى في المجالات التي تم فيها إحراز تقدم كبير ، كان هناك القليل من الاعتراف في تونس خارج الدوائر الحكومية والخبراء الدوليين. أظهرت مناقشات حلقات النقاش أن استقلالية Cdc لا تُقدَّر غالباً بحد ذاتها ، مع تركيز الاهتمام على أن هناك عدم متابعة توصيات Cdc يجب النظر إلى هذا في ضوء خيبة الأمل العامة الحالية ، والإحباط المنتشر والوضع الصعب في تونس (الأزمة السياسية والمؤسسية ، والصعوبات الاقتصادية ، وفشل الاستجابة لـ COVID-19). كما أن ذلك أيضاً مرتبط بحقيقة أن التأثيرات الملموسة غالباً ما لم تتحقق ، على سبيل المثال ، فعلى الرغم من الخطوات العديدة التي تم اتخاذها ، لا تزال البرامج الاجتماعية ضعيفة الاستهداف ، مع استخدام نموذج التسجيل الجديد فقط لإضافة مستفيدين جدد إلى النظام.

### التأثير الاجتماعي

أظهر تحليل الواقع المضاد أنه في حال غياب المساعدة المالية للاقتصاد الكلي MFA II ، كان من الممكن أن يتأثر الوضع الاجتماعي بشكل سلبي معتدل. إذ كانت الآثار السلبية ستحدث من خلال القنوات المباشرة (تقدم أبطأ أو سطحياً مع الإصلاحات الرئيسية مثل إصلاحات شبكة الأمان الاجتماعي وسياسة سوق العمل) والقنوات غير المباشرة (ارتفاع تكاليف المعيشة والدخل الفاقد الناجم عن تأثيرات الناتج المحلي الإجمالي). في غياب كل من المساعدة المالية للاقتصاد الكلي وصندوق النقد الدولي ، ستكون التأثيرات الاجتماعية غير المباشرة أكثر حدة بكثير وذلك مع انخفاض حاد متوقع في الناتج ، الأمر الذي يؤدي إلى تفاقم مشاكل سوق العمل الحالية ، ويخفّض خلق فرص العمل ويسبب ضرراً دائماً في مستويات الدخل علاوة على التضخم المتسارع والذي يمكن أن يتسبب بآثار قاسية على الظروف المعيشية. بالإضافة إلى ذلك ، كان من الممكن أن يكون لتخفيضات مستويات الاستثمار العام آثاراً طويلة المدى وتشمل (البنية التحتية ، جودة الخدمات العامة ، الأمن).

### القدرة على تحمّل الديون

كان من شأن عدم وجود دفعات فردية من المساعدة المالية للاقتصاد الكلي MFA II أن يؤدي إلى زيادة تراكم ديون تونس بشكل طفيف فقط ، وذلك نتيجة للاختلاف المباشر في مدفوعات الفائدة (مقارنة التمويل المحلي الأكثر تكلفة بشروط MFA) والتأثير غير المباشر على الفائدة التي يطلبها مستثمرو القطاع الخاص بسبب حالة ضعف الثقة. في حين فإنّ التأثيرات التراكمية غير المخصصة على تكلفة اقتراض تونس ليست كبيرة (حوالي 127.3 مليون يورو للدفعة الأولى و 108.6 مليون يورو للدفعتين الثانية والثالثة<sup>18</sup>). ومع ذلك ، فإنّ قدرة تونس على تحمل الديون لم تتأثر بشكل كبير .

أما في حالة السيناريو الذي يفترض غياب المساعدة المالية للاقتصاد الكلي وصندوق النقد الدولي ، فإنّ هناك أيضاً تأثير يؤدي إلى الانخفاض في الناتج المحلي الإجمالي (نتيجة التخفيضات الكبيرة في حجم الاستثمار

<sup>18</sup> ستكون المدخرات أقل في إطار "البديل 2" ، حيث كان من المفترض أن الحكومة ستميل بشكل أكبر إلى تقليل الاستثمار العام. وذلك لأنه في عام 2019 ، كان معدل التضخم الفعلي (7.1%) أقرب إلى الحد الأقصى للإرتفاع (7.9%) ، مقارنة بعام 2017 (معدل التضخم 4.8%).

(العام)، كما أنّ تكاليف الاقتراض المرتفعة كان من شأنه أن يضعف وبشكل خطير قدرة تونس على تحمل الديون. بحلول عام 2025 ، ستكون نسبة الدين العام إلى الناتج المحلي الإجمالي قد زادت إلى ما يقدر بنحو 93.8% من الناتج المحلي الإجمالي ، مقارنة بـ 84.4% في خط الأساس. في حين أنه كان من المرجح أن يتم تجنب التخلف عن السداد على المدى القصير ، إلا أنه لا يمكن استبعاده على المدى المتوسط إلى الطويل.

## الكفاءة

### توقيت صرف الدفعات

ظلت أهمية الظروف المالية الخاصة بالمساعدة المالية للاقتصاد الكلي عالية طوال العملية. ففي عام 2017 ، كان استمرار دعم الاتحاد الأوروبي في تونس ذا قيمة وذلك نظرًا لتدهور الموقف المالي (بلغ العجز العام 6.5% في عام 2017) . أمّا في عام 2019 ، جاءت الدفعات الثانية والثالثة في وقت كان فيه النمو يتباطأ (انخفض إلى 1%) وكان من المقرر سداد التزامات كبيرة لسداد الديون (2 مليار يورو). في عام 2018 ، تم استيعاب عدم وجود دفعات من المساعدة المالية للاقتصاد الكلي من خلال دعم الموازنة من المؤسسات المالية الدولية الأخرى (IFIs) والجهات المانحة ، وكذلك التمويل الذي تم جمعه من البنوك المحلية (بالعملة الأجنبية).

### ملكية الإصلاحات

تمت مواءمة الإصلاحات المتعلقة بالمساعدة المالية للاقتصاد الكلي MFA مع برنامج الإصلاح الذي التزمت به السلطات فعلياً. ومع ذلك ، كان هناك تباين في استعدادهم لتحمل المسؤولية بخصوص تكلفة هذه الإصلاحات. بالإضافة إلى ذلك ، فإن التعبير عن الإرادة السياسية من قبل القيادة العليا ، والبيانات العامة المؤيدة للإصلاحات ، والجهود المبذولة لكسب دعم أوسع للإصلاح خارج الحكومة كانت متواضعة وشحيحة بشكل منهجي. كما عملت عناصر أخرى على عرقلة الإصلاحات ، مثل عدم الاستقرار السياسي الناتج عن التغييرات المتكررة للحكومات ، والمطالب الاجتماعية والاقتصادية القوية.

### المقدرة

تسببت مسألة القدرة في تأخير تنفيذ الإصلاح، ففي بعض الحالات ، كانت برامج المساعدة الفنية التكميلية التي يديرها مانحون آخرون مفيدة في المضي قدماً بالإصلاحات (مثل المساعدة الفنية من البنك الدولي لإصلاح شبكة الأمان الاجتماعي). أما في حالات أخرى ، كانت جذور المشكلة تتعلق بفشل التنسيق من جانب السلطات ، وكان من المفترض معالجته جزئياً من خلال تكثيف العمل التنسيقي من قبل الجهات المانحة الرئيسية والمؤسسات المالية الدولية منذ عام 2018.

### عمليات الاتصال مع السلطات والرصد

كان للتحديات الهيكلية التي واجهتها الإدارة التونسية تأثير على كفاءة العمليات. ومع ذلك ، كان الاتصال بالسلطات أكثر مرونة في إطار المساعدة المالية للاقتصاد الكلي MFA II مقارنة بـ MFA I ، نظرًا لزيادة الإلمام والإدراك بهذه العمليات من قبل السلطات هناك.

تعديلات على التنفيذ نتيجة للأحداث الخارجية غير المتوقعة

عند تقييم درجة استيفاء وتحقيق الشروط ، بشكل عام ، يبدو أن التوازن الصحيح قد تم تحقيقه بين المرونة (مثل إصلاح ضريبة القيمة المضافة) والثبات عند الضرورة (مثل قانون CdC). لم يكن هناك دليل على أن الاتحاد الأوروبي كان مرئياً بشكل مفرط في المساعدة المالية للاقتصاد الكلي MFA II ، على الرغم من الانتقادات العامة من الخبراء الذين شملهم الاستطلاع والمؤسسات المالية الدولية والجهات المانحة أنفسهم ، بأن المجتمع الدولي متساهل نوعاً ما في تونس ولا يشجع التغيير بشكل فعال وحقيقي.

### إدراك ومعرفة البرنامج

كما هو متوقع ، كانت معرفة وإدراك المساعدة المالية للاقتصاد الكلي MFA II بين عامة الناس محدودة للغاية ، مع عدم وجود قبول عام لدى الجمهور بأمورها. على النقيض من ذلك ، واجه برنامج صندوق النقد الدولي المزيد من الانتقادات.

### القيمة المضافة للاتحاد الأوروبي

من الناحية المالية ، قدمت عملية المساعدة المالية للاقتصاد الكلي قيمة مضافة واضحة للاتحاد الأوروبي من حيث أن الدول الأعضاء وحدها لم تكن على الأرجح ستقدم مساعدة بهذا الحجم في شكل دعم للميزانية ، بالإضافة إلى الدعم الاستثنائي الذي كانت تقدمه بالفعل. حيث جاءت القيمة المضافة للاتحاد الأوروبي أيضاً من الشروط والأحكام المرتبطة بعملية المساعدة المالية للاقتصاد الكلي، والتي كانت في مجملها شروطاً ميسرة للغاية (معدلات تفضيلية من 0.3 إلى 0.75٪ ، جنباً إلى جنب مع استحقاق 13-16 عاماً ، اعتماداً على الدفعات). هذه الشروط بشكل عام توازي تقريباً تلك التي يقدمها المانحون الآخرون.

بشكل رمزي ، أعطى تمويل MFA II إشارة قوية لدعم الاتحاد الأوروبي لتونس الأمر الذي جاء تلبية للتوقعات بأن الاتحاد الأوروبي سيتدخل في وقت الأزمات وذلك اعتماداً على الشراكة المتميزة بين الاتحاد الأوروبي وتونس والانتقال السياسي المستمر في تونس. تم استقبال هذه المساعدة بشكل إيجابي على الرغم من شكوك الجمهور حول فعالية الدعم الدولي وأجندة الأطراف المانحة بشكل عام .

كان لبرنامج المساعدة المالية للاقتصاد الكلي MFA II وكذلك الدعم المقدم من صندوق النقد الدولي بعض الآثار لتعزيز مستوى الثقة ، حيث منع ساهم في التخفيف من التراجع في الثقة في الاقتصاد التونسي، كما كان له تأثير معزز على تنفيذ الإصلاحات الرئيسية وكذلك كان له دور فعال في تحقيق استقلالية CdC. أظهر استطلاع الخبراء أن الاتحاد الأوروبي كان بإمكانه استخدام نفوذه لتعزيز إصلاحات هيكلية أكثر عمقاً ، كإصلاح الشركات المملوكة للدولة أو الإدارة العامة. ومع ذلك ، إذا كان لدى الاتحاد الأوروبي مثل هذه النوايا، فسوف يحتاج إلى تقديم حزمة دعم كبيرة بما يكفي للتغلب على مقاومة التغيير. أخيراً ، كان من الممكن تقسيم الأدوار مع صندوق النقد الدولي بشكل أفضل ، مع استخدام أكثر كفاءة للشروط المتقاطعة وجهود الاتحاد الأوروبي بشكل أفضل نحو المجالات التي يتمتع فيها بخبرة وتجربة محددة.

## 2- الأردن الملائمة

### حجم المساعدة

كان حجم الدعم المقدم من خلال المساعدة المالية للاقتصاد الكلي MFA II محدوداً للغاية مقارنة بعمليات المساعدة المالية للاقتصاد الكلي الأخرى. حيث أنّ مبلغ 200 مليون يورو والمقدم بموجب MFA II هو أقل

من المبلغ المطلوب (350 مليون يورو) ولكنه كان مصحوبًا بالتزام مدرج في إعلان مشترك من قبل البرلمان الأوروبي والمجلس والمفوضية الأوروبية للنظر في المزيد من المساعدة المقدمة من MFA إن لزم الأمر. نسبياً ، شكل حجم المساعدة المالية للاقتصاد الكلي MFA II للأردن 0.3% من الناتج المحلي الإجمالي في كل من 2017 و 2019. لم يكن مبلغاً ضئيلاً ، لا سيما مع المساعدة الكلية المستلمة على شكل دعم للموازنة من صندوق النقد الدولي والبنك الدولي ، بالإضافة إلى عمليات دعم الموازنة من قبل الاتحاد الأوروبي الأخرى (يمثل الدعم المقدم من خلال MFA II حوالي 15% من إجمالي الدعم الكلي المقدم لهذا الغرض)

### شكل المساعدة

تم تقديم المساعدة المالية للاقتصاد الكلي MFA II كقروض ميسرة للغاية بمعدلات أقل من السوق وبشروط أكثر ملاءمة من تلك الخاصة بصندوق النقد الدولي. بالنظر إلى حجم العملية والعوامل الرئيسية الخاصة بالأردن (دخل الفرد ، والقدرة على تحمل الديون ، ومستوى الفقر) ، لم يتم اعتبار المساعدة المالية للاقتصاد الكلي على شكل منحة أو جزئياً منحة ، خياراً قابلاً للتطبيق.

### الشروط المرتبطة بدعم MFA II

تم تقييم عدد شروط المساعدة المالية للاقتصاد الكلي MFA II على أنها مناسبة خلال فترة زمنية متاحة تمتد لحوالي سنتان ونصف، إذ أنّ أكثرها كان طموحاً بشكل مناسب وموجهاً بشكل جيداً ، بناءً على أولويات الإصلاح. ومع ذلك ، اعتُبرت بعض الشروط مفرطة في الطموح ، نظراً للإطار الزمني الأولي وقدرة الحكومة (على سبيل المثال ، الإصلاح الضريبي) أو في ظل ظروف طموحة (مثل قطاع المياه) .

تُشير الدلائل إلى أنّ مجموعة المجالات والمحاور التي تناولها المساعدة المالية للاقتصاد الكلي MFA II كانت مناسبة نظراً للسياق السياسي والاقتصادي والمؤسسي السائد. كانت الشروط حول مراجعة استراتيجية إدارة الدين ، إلى جانب إعادة هيكلة مديرية الدين العام مهمة للغاية في استقرار الدين العام. كما كان الهدف من فك ارتباط ديوان المحاسبة ومراجعة قانون ديوان المحاسبة هو زيادة استقلالية الديوان وتحسين الأساس القانوني لمكافحة الفساد، بينما كان الإصلاح الضريبي ضرورياً للحفاظ على الاستدامة ، فإن شبكة الأمان الاجتماعي تتطلب التوسع والتحديث من أجل تعويض الأثر الاقتصادي في الفئات المعرضة للخطر. كما كان إدراج اللاجئين السوريين في سوق العمل أثراً بالغ الأهمية من وجهة نظر اجتماعية ، بينما تهدف خطة العمل لقطاع المياه إلى توفير التكاليف من خلال تحسين كفاءة الطاقة ، مع حماية الأسر الضعيفة في الوقت نفسه . في المقابل تم ربط العديد من مجالات الإصلاح هذه ارتباطاً وثيقاً إما بأهداف عملية المساعدة المالية للاقتصاد الكلي MFA (مثل إدارة الشؤون المالية العامة ، والضرائب) و/أو أهداف السياسة الخارجية للاتحاد الأوروبي في المنطقة (مثل التوظيف والتجارة).

### الإتساق

جاء برنامج المساعدة المالية للاقتصاد الكلي MFA II متوافقاً بشكل جيد مع الإطار العريض للسياسة والذي يوجه العلاقات بين الاتحاد الأوروبي والأردن ، وبالأخص اتفاقية الشراكة بينهما (AA). يوضح تخطيط شروط اتفاقية المساعدة المالية للاقتصاد الكلي الثانية مقابل الأولويات قصيرة الأجل المحددة في اتفاقية الشراكة كيف ساهمت هذه الشروط في تنفيذ الاتفاقية. بالإضافة إلى ذلك ، شكل MFA II جزءاً من حزمة أوسع من دعم الاتحاد الأوروبي للأردن ، بما في ذلك مساعدات المنح ، وبرامج دعم الموازنة والمساعدات الإنسانية والمساعدة الفنية ، والتي تستهدف العديد منها نفس المجالات التي استهدفتها MFA II (إدارة المالية العامة ، دعم إدراج اللاجئين السوريين). كما جاء برنامج المساعدة المالية للاقتصاد الكلي MFA ليعزز برامج

المنظمات الدولية الأخرى ، ولا سيما صندوق النقد الدولي والبنك الدولي والوكالة الفرنسية للتنمية (بما في ذلك على مستوى الشروط المطلوبة).

## الفعالية

### دور ومساهمة المساعدة المالية للاقتصاد الكلي في تعزيز استقرار الاقتصاد الكلي

على الرغم من الجهود المبذولة للحد من العجز المالي في القطاع العام وتخفيف عجز الحساب الجاري (CAD) ، ظل الوضع الاقتصادي صعباً من عام 2016 إلى عام 2019 ، حيث بقي معدل نمو الناتج المحلي الإجمالي ثابتاً تماماً في حين استمرت نسبة الدين إلى الناتج المحلي الإجمالي في الزيادة. ومع ذلك يعتقد الخبراء بأن مؤشرات الاقتصاد الكلي كانت من الممكن أن تكون أكثر سوءاً في حالة غياب برنامج المساعدة المالية للاقتصاد الكلي الثاني. إذ تشير نتائج تحليل الوقائع إلى أنه بدون الدفعة الأولى من المساعدة المالية للاقتصاد الكلي الثانية في عام 2017 (البديل 1) لكان الحصول على تمويل بديل من المانحين الثنائيين أمراً معقداً وغير مؤكد الحصول عليه. في حين كان السحب من الاحتياطات مقيداً بشدة بسبب التزامات السداد التي تلوح في الأفق. إذ أنه من المستحيل إجراء المزيد من التخفيض في مستويات الإنفاق العام أو الخصخصة ، اقتصادياً وسياسياً. كما وتشير النتائج أيضاً إلى أن الأردن كان سيغطي معظم فجوة التمويل الناتجة عن طريق إصدار ديون جديدة في الأسواق المحلية ، مع تغطية الباقي بجهود متسارعة للحد من التهرب الضريبي. كانت نفس الخيارات متاحة للأردن لو لم يتم صرف الدفعة الثانية في عام 2019 (البديل 2). لو لم يكن برنامج المساعدة المالية للاقتصاد الكلي الثاني ولا مرفق الصندوق الموسع التابع لصندوق النقد الدولي متاحين للأردن (البديل 3) في عام 2017 أو 2019 ، لكانت النتائج السلبية أكثر خطورة ، وكان العجز عن السداد هو النتيجة الطبيعية لذلك.

### التقدم المُتحقق في تنفيذ الإصلاح الهيكلي

أحرز الأردن تقدماً ملموساً في مجالات الإصلاح الهيكلي المرتبط باتفاقية المساعدة المالية للاقتصاد الكلي محققاً أو متجاوزاً لأبعد من شروط المساعدة المالية للاقتصاد الكلي MFA II. ومع ذلك ، فقد تم تفويض بعض هذا التقدم مؤخراً بسبب أزمة COVID-19 المستمرة.

اعتباراً من عام 2021 ، أكمل السجل الوطني الموحد (NUR) جميع مراحل إجراءات التوسع ، ويتم الآن استخدام منصة عبر الإنترنت لتحديد وجمع بيانات المؤشرات الرئيسية حول الأسر الفقيرة. حيث كانت هذه المنصة مفيدة بشكل خاص في تنفيذ الدعم الاجتماعي الطارئ 2020 ، بما في ذلك دعم الخبز. نظراً لدورها في زيادة عدد المستفيدين من الدعم بين عامي 2016 و 2020 ، وربط ما لا يقل عن 15 جهة حكومية ، فإن المناقشات جارية حول إمكانية استخدام السجل الوطني الموحد (NUR) لتقديم الدعم المستهدف في دعم الكهرباء والمياه والرعاية الطبية والتأمين الصحي.

في مجال إدارة المالية العامة ، تم مؤخراً تحديث استراتيجية إدارة الدين (2019-2023)، وقد سمحت آلية مراجعة الشكاوى للحكومة بمكافحة الفساد وتحسين المساءلة في المشتريات العامة. كما تم تحقيق المعالم الرئيسية في مجال التدقيق ، مع وجود الهيكل المؤسسي الآن إلى حد كبير في مكانه الصحيح وبعض التطورات الملموسة الجارية حالياً على المستويين الفني والتشريعي.

حقوق الأردن تقدماً ملحوظاً في إصلاح نظام الضرائب ، ولكن هناك المزيد مما يتعين القيام به لضمان الحصول على إيرادات مستدامة تحتاجها الحكومة باستمرار. كما أن هناك حاجة أيضاً إلى إصلاح أكثر عمقاً في إدخال اللاجئين السوريين ، والمساءلة بشأن البيانات الاجتماعية والاقتصادية ، والمياه، حيث اتسع مؤخراً العجز المالي في قطاع المياه الأمر الذي أدى إلى تفاقم مشاكل الموازنة العامة للدولة.

### التأثير الاجتماعي

أشظهر تحليل الواقع المضاد أنه بدون الدفعة الأولى من برنامج المساعدة المالية للاقتصاد الكلي الثاني ، ولكن بدعم من صندوق النقد الدولي (البديل 1) ، لن يكون هناك سوى تأثيرات اجتماعية غير مباشرة ومتواضعة ، وذلك بسبب مصادر التمويل البديلة التي لن تؤدي إلى تخفيض في حجم الانفاق الحكومي.

بموجب البديل 2 (لا توجد دفعة ثانية من برنامج المساعدة المالية للاقتصاد الكلي الثاني) ، على الرغم من توافر مصادر التمويل الأخرى ، فقد يكون هناك بعض مخاطر التنفيذ للإصلاح الاجتماعي ، بما في ذلك الإصلاح الأبطأ والأقل شمولاً لشبكات الأمان الاجتماعي ، والسياسة الضريبية ، والحصول على فرص العمل / تدريب اللاجئين. كان من الممكن أن يكون لذلك تأثير سلبي على الوضع الاجتماعي في الأردن ، على سبيل المثال من خلال التأخير في إنشاء NUR ، وتباطؤ إدماج اللاجئين السوريين.

ومن المرجح أيضاً أن الآثار السلبية طويلة المدى للاستهداف قد يكون ناتجاً عن ضعف التقدم في تحسين القدرات الإدارية / المراقبة. في ظل هذا السيناريو ، كان من الممكن تجنب بعض الزيادات في ضريبة المبيعات التي تؤثر على الأسر الأفقر (مثل المواد الغذائية) ، ومع ذلك ، فإنه من المحتمل أن تخلق بعض الآثار الاجتماعية الإيجابية.

في غياب دعم كل من المساعدة المالية للاقتصاد الكلي وصندوق النقد الدولي (البديل 3) ، كان لأزمة الديون السيادية المحتملة آثار اجتماعية خطيرة ، مثل الركود الاقتصادي ، وزيادة معدلات البطالة ، وارتفاع مستويات التضخم ، وتخفيضات الخدمات العامة والأجور ، وكلها والتي كان من الممكن أن يكون لها آثار سلبية كبيرة على الوضع الاجتماعي في الأردن.

### القدرة على تحمل الديون

حتى مع بعض الجهود الناجحة للحد من عجز القطاع العام والدعم من صندوق النقد الدولي وصندوق برنامج المساعدة المالية للاقتصاد الكلي، تراكمت على الأردن المزيد من الديون بين عامي 2016 و 2019 ، وإن كان ذلك بمعدل أبطأ إلا أن معدل التباطؤ هذا كان كافياً لعكس الآثار التراكمية للدين العام غير المستدام إلى حد كبير في السنوات السابقة ، وبحلول عام 2020 طلبت الحكومة الأردنية مزيداً من المساعدة من صندوق النقد الدولي ومن الاتحاد الأوروبي أيضاً<sup>19</sup> (قبل تفشي وباء COVID-19).

يشير تحليل النتائج الأكثر احتمالية في غياب الدفعة الأولى من برنامج المساعدة المالية للاقتصاد الكلي الثاني في عام 2017 (البديل 1) أو الدفعة الثانية في عام 2019 (البديل 2) إلى أن الخيارات المتاحة للأردن كانت ستكون متشابهة في كل من عامي 2017 و 2019: استبدلت مساعدة MFA بالكامل تقريباً بالاقتراض المحلي. على المدى المتوسط ، كما أنه كان من الممكن أن يؤدي ذلك إلى زيادة في تكلفة الاقتراض ، حيث قدمت الأسواق المالية المحلية معدلات فائدة أعلى بكثير من أسعار الفائدة الميسرة في برنامج المساعدة المالية

<sup>19</sup> برنامج المساعدة المالية للاقتصاد الكلي الثالث بـ 500 مليون يورو – تم اعتماده من قبل الاتحاد الأوروبي في كانون ثاني 2020، وقبل كوفيد-19.

للاقتصاد الكلي الثاني في كلا العامين ، كما وكانت مؤشرات الاقتصاد الكلي الرئيسية ستبقى دون تغيير إلى حد كبير عن السيناريو الأساسي ولن يكون لها تأثير يذكر على مخاطر العجز عن السداد في الأردن.

بدون دعم كل من برنامج المساعدة المالية للاقتصاد الكلي أو دعم صندوق النقد الدولي (البديل 3) ، كان من المحتمل أن يتخلف الأردن عن سداد ديونه أولاً. كما أنه من المحتمل أن يكون قد فقد إمكانية الوصول إلى الأسواق المالية الدولية ، مما يزيد من حجم فجوة التمويل، حيث كانت الجهود الأولية لسد تلك الفجوة بالاقتراض المحلي من الممكن أن تؤدي إلى تدهور الأوضاع الاقتصادية والتضخم والتخلي والحاجة إلى تعويم الدينار. الأمر الذي بدوره يمكن أن يؤدي إلى مزيد من زعزعة الاستقرار في الاقتصاد وعدم القدرة على سداد الديون مستقبلاً .

## الكفاءة

### توقيت صرف الدفعات

تم صرف الدفعة الأولى في عام 2017 ، في ظل ظروف اقتصادية واجتماعية مليئة بالتحديات ، على خلفية ارتفاع أسعار النفط والتعديل اللاحق في تعرفه الكهرباء ، فضلاً عن قضايا انخفاض النمو ، وارتفاع معدلات البطالة ، وانخفاض الاستثمار. في عام 2019 ، عندما تم صرف الدفعة الثانية (المتأخرة) ، كان الأردن لا يزال يعيش في ظروف صعبة مليئة بالتحديات متمثلة بانخفاض النمو وضعف الاستثمار ونقص الإيرادات الضريبية المتوقعة. تم استخدام مزيج من الإجراءات المالية والاقتراض من الأسواق المحلية لسد الفجوة الناجمة عن تأخر صرف الدفعة الثانية من برنامج المساعدة المالية للاقتصاد الكلي.

### ملكية الإصلاحات

على الرغم من طول الفترة التي استغرقتها عملية التنفيذ ، أظهر تقييم MFA II للأردن عدم وجود مشاكل رئيسية ناجمة عن نقص الملكية. ومع ذلك ، فقد تم ملاحظة القضايا المتعلقة بانعدام الشفافية وعدم التطابق بين الخطاب والعمل من قبل الأشخاص الذين تمت مقابلتهم . كما واختلفت الأحكام المتعلقة بمستوى ملكية الإصلاح في الأردن إلى حد ما: فقد أقر بعض الأشخاص الذين تمت مقابلتهم بدرجة أعلى من ملكية الإصلاح المضمنة في نهج سياسي مؤسسي شامل واستعداد الملك لإجراء تغييرات هيكلية وضمن الحفاظ على الملكية ؛ كان البعض الآخر أكثر تشككاً ، مشيرين إلى الافتقار إلى المساءلة ، حيث اشتركت السلطات في البرامج السياسية التي فشلت بعد ذلك في تنفيذها على النحو المنفق عليه.

كانت ملكية برنامج المساعدة المالية للاقتصاد الكلي الثاني MFA II متفاوتة عبر مختلف الهيئات المنفذة لها ومجالات الصلاح المطلوبة . في حين أظهرت بعض الوزارات المنفذة في البداية استعدادها لتولي المسؤولية عن الإصلاح (مثل القدرة على تحمّل الديون) ، أظهرت هيئات أخرى ملكية ضئيلة للتدابير وحاولت مقاومة الإصلاح (على سبيل المثال المساءلة عن البيانات الاجتماعية والاقتصادية). أدت العمليات التشريعية والرقابية غير المتوقعة في البرلمان الأردني ، إلى جانب معدل دوران الموظفين الحكوميين المرتفع للغاية ، إلى زيادة التحدي وزيادة قضايا الملكية المعقدة. على الجانب الإيجابي ، تغلبت المستويات القوية من الالتزام تجاه



المساعدة المالية للاقتصاد الكلي MFA على أعلى المستويات على المقاومة الأولية (على سبيل المثال ، إصلاح نظام المشتريات العامة) ، مما أدى إلى إحداث تغييرات في الممارسات التي فاقت متطلبات الشرط.

### المقدرة

كانت استجابة السلطات بطيئة للغاية ، مع ارتفاع مستوى البيروقراطية وعدم الجدية في القطاع العام ، لا سيما لبعض الظروف (على سبيل المثال ، ديوان المحاسبة ، والمشتريات العامة) مما أدى إلى تأخير العملية. أشار عدد من الأشخاص الذين تمت مقابلتهم أيضًا إلى قيود أخرى تؤثر على القدرات ، بما في ذلك نقص الموارد الكافية ، ودوران الموظفين ، والروتين المفرط ، والممارسات الإدارية المرهقة ، والتعقيد الهرمي في الإدارة. تم تحقيق بعض الإصلاحات بالاعتماد القوي على المساعدة الفنية الخارجية ( وتحديدًا في مجال المشتريات العامة والسجل الوطني الموحد).

### عمليات الاتصال مع السلطات والرصد

على الرغم من التحديات الهيكلية التي واجهتها الإدارة الحكومية الأردنية - والتي كان لها بعض التأثير على كفاءة العمليات ، - حققت المساعدة المالية للاقتصاد الكلي MFA II بعض التحسينات مقارنة ببرنامج المساعدة المالية للاقتصاد الكلي السابق MFA I.

### تعديلات على التنفيذ نتيجة للأحداث الخارجية غير المتوقعة

بشكل عام، اعتبرت المفوضية الأوروبية مرنة في التنفيذ والصرف (على سبيل المثال ، الإصلاح الضريبي) ، بينما بقيت ثابتة في نفس الوقت عند الضرورة (على سبيل المثال ، إصلاح المشتريات العامة). لم يُطلب أي تنازل بخصوص البرنامج.

### إدراك ومعرفة البرنامج

كانت معرفة وإدراك برنامج المساعدة المالية للاقتصاد الكلي MFA كأداة محددة محدودة للغاية بين عامة الشعب الأردني ، ولكنها معروفة جيدًا بين السلطات وأصحاب المصلحة الذين يتعاملون بشكل مباشر مع قضايا الاقتصاد الكلي . في حين أن هناك بعض الشكوك العامة حول المساعدات الخارجية ، نظرًا لوضع الديون في الأردن ، فلا يوجد ما يشير إلى أن MFA II قد خلق مخاوف خاصة لدى الناس لعدم إدارتهم له بشكل جيد.

### القيمة المضافة للاتحاد الأوروبي

إن الميزة الرئيسية للقرض الممنوح ضمن المساعدة المالية للاقتصاد الكلي MFA II مقارنة بمصادر التمويل البديلة (بما في ذلك IMF و EFF) هي شروطه الميسرة ، والتي تضمنت معدل فائدة منخفض نسبيًا ، وأجال استحقاق طويلة ، وفترة سماح طويلة. وقد أدى ذلك إلى تحقيق وفورات مالية كبيرة للحكومة الأردنية والاقتصاد الأردني. كما استفاد الأردن من تأثير الإشارات القوية من كل من MFA II و IMF و EFF ، في حين أن الإصلاحات ذات الصلة وتدابير التعديل تضمنت ثقة الأسواق المالية الدولية / المستثمرين والدائنين الرئيسيين.

كما أن للمساعدة المالية المقدمة من قبل الاتحاد الأوروبي من خلال MFA II أهمية رمزية ، تمثلت في التوقعات التي تقضي بضرورة تدخل الاتحاد الأوروبي لتقديم الدعم في وقت الأزمات المالية والاقتصادية وأزمات اللاجئين الحادة ، كما تم التعهد به في مؤتمر لندن في عام 2016.

تشير الأدلة إلى أن برنامج المساعدة المالية للاقتصاد الكلي الثاني قد استخدم نفوذه السياسي لضمان إحراز تقدم مهم في مستوى الإصلاحات . فعلى الرغم من تباين أهمية تأثير الاتحاد الأوروبي اعتمادًا على مجال الإصلاح ، اتفق معظم أصحاب المصلحة على أنه في حالة غياب المساعدة المالية للاقتصاد الكلي MFA II فإنّ عملية الإصلاح كان ممكن أن تكون أبطأ وغير متنسقة . كما وسمح اعتماد موقف حازم وثابت للاتحاد الأوروبي بالاستفادة من إصلاحات أكثر فاعلية وشمولية في مجال المشتريات العامة ، وإحراز مزيد من التقدم في مجال شبكات الأمان الاجتماعي ، على وجه الخصوص ، مع التركيز على المساءلة والحوكمة الرشيدة . يعتقد الخبراء أنّ التقدم المستمر في الإصلاحات التي بدأت من خلال برنامج المساعدة المالية للاقتصاد الكلي يمكن أن يعيد ثقة المستثمرين في الأردن.

### 3. التقييم المقارن

#### السياق الجيوسياسي والاقتصادي الكلي

يشارك البلدان من الجوار الجنوبي والمستفيدين من عمليات المساعدة المالية للاقتصاد الكلي خلال الفترة المذكورة في العديد من أوجه التشابه: تونس والأردن اقتصادان متماثلان في الحجم ، على مستويات متشابهة من التنمية ويتأثران بالعديد من مصادر الضعف المشتركة (بما في ذلك العجز الكبير في الحساب الجاري والمالي ، ضعف المنافسة ، وأنظمة الرفاهية القائمة على الإعانات الشاملة ، ومعدلات البطالة المرتفعة بشكل كبير وعدم المساواة) . كان أحد الاختلافات هو مسار الديون في الفترة التي سبقت الحصول على المساعدة المالية للاقتصاد الكلي ، وهو أمر لا يمكن تحمله في حالة الأردن.

إلى جانب ذلك ، كان هناك حرص من الاتحاد الأوروبي على دعم كلا البلدين لأسباب جيوسياسية . لكن السياق كان مختلفًا لكل من تونس والأردن . إذ تقف تونس كمثال وحيد على الانتقال السياسي المستمر في أعقاب الربيع العربي ، كما أنها متأثرة بقوة بالاتحاد الأوروبي ، وهذا ما يُظهره تحليل التجارة وتدفقات IDE والمساعدات ونحويلات العاملين في الخارج . على العكس من ذلك ، لم يشهد الأردن أي تغيير في النظام وهو أكثر انغماسًا في الجغرافيا السياسية للشرق الأوسط . كانت المحفزات الرئيسية للعمليات مختلفة أيضًا عبر البلدين . في تونس ، كانت المحفزات الرئيسية تتعلق بتهديدات الأمن الداخلي ، إلى جانب تداعيات الأزمة في ليبيا ، بينما كانت في الأردن مرتبطة بالنتائج الاقتصادية للأزمة السورية ، ولا سيما تدفق اللاجئين السوريين.

#### تصميم وتنفيذ العمليتين

يشارك الجدول الزمني لتصميم وتنفيذ العمليتين في العديد من الخصائص المشتركة . في كلتا الحالتين ، كانت مرحلة التصميم طويلة ، مع فارق زمني بين طلب MFA وتوقيع مذكرة التفاهم من 18 إلى 20 شهرًا . فيمت يتعلّق بالصرف فقد تمت عملية الصرف الثاني في كلتا الحالتين في يوليو 2019 ، أي بعد 21 شهرًا من الصرف الأول ، نظرًا لتأخر التقدم في تنفيذ الإصلاحات الرئيسية . بالرغم من أن برنامج المساعدة المالية للاقتصاد الكلي لتونس كان أكبر من الناحيتين المطلقة والنسبية ، إلا أن حجم المساعدة كان مناسبًا في كلتا الحالتين عند مراعاة اعتبارات تقاسم الأعباء واحتياجات التمويل المتبقية . كما وتم تقديم تمويل MFA لكلا البلدين على شكل قروض ميسرة للغاية ، الأمر الذي يكمل دعم الاتحاد الأوروبي المقدم على صورة منح.

احتوت كلتا العمليتين على عدد يمكن التحكم فيه من الشروط التي تستهدف بعض المجالات والأطر المشتركة كإدارة الشؤون المالية العامة ، والضرائب ، وشبكات الأمان الاجتماعي وسوق العمل . كما وتم اختيار الشروط بحيث تتناسب إلى حد كبير وتغطي مجالات كافية ، كما وتمت مناقشة المجالات والأطر ذات الصلة إضافة مواعمة الشروط مع برامج وأجندة الإصلاح الخاصة بالدول . جاءت شروط برنامج المساعدة المالية

للاقتصاد الكلي الثاني MFA II كاستمرارية لبرنامج المساعدة المالية للاقتصاد الكلي الأول واستناداً على الدروس المستفادة من التجربة السابقة. في حالة تونس ، وبالنظر الى حجم المساعدة ونفوذ الاتحاد الأوروبي في البلاد ، فقد كان هناك تركيز أكبر قليلاً على الإجراءات التي تشكل جزءاً من عملية إصلاح أطول، بما في ذلك الشروط المتعلقة بالتغيير التشريعي. إذ تميزت العملية التونسية أيضاً بشروط عززت بوضوح المصالح الاقتصادية للاتحاد الأوروبي (جنباً إلى جنب مع أولويات البلدان) ، والتي يمكن أن تكون إشكالية من وجهة نظر مبدئية.

## نتائج وتأثيرات العمليتين

### تعديل الاقتصاد الكلي

بقي وضع الاقتصاد الكلي مليئاً بالتحديات خلال الفترة 2016-2019 في كلا البلدين. إلا أنه كان من الممكن أن يكون الأمر أكثر سوءاً في حالة غياب برنامج المساعدة المالية للاقتصاد الكلي، على الأقل في تونس ، حيث يُفترض أنه كان من الممكن سد فجوة التمويل بمزيج من زيادة التمويل المحلي وخفض الاستثمار في القطاع العام . كما وكان من الممكن أن يكون لهذا السيناريو الافتراضي تأثير ضئيل إلى متواضع على الناتج المحلي الإجمالي ، إضافة الى خلق ضغوط تضخمية تسببت بشكل غير مباشر في عواقب اجتماعية سلبية (ارتفاع تكاليف المعيشة وفقدان الدخل).

في كلا البلدين ، كان من الممكن أن تظل القدرة على تحمل الديون مشابهة إلى حد كبير لما لوحظ (خط الأساس) في حالة عدم وجود تمويل من برنامج المساعدة المالية للاقتصاد الكلي. ومع ذلك ، كانت تكلفة الاقتراض سترتفع ، نظراً لارتفاع تكلفة التمويل المحلي مقارنة بشروط MFA والتأثير غير المباشر على الفائدة التي يطلبها مستثمرو القطاع الخاص بسبب ضعف الثقة . كما أنه في حالة غياب التمويل من برنامج المساعدة المالية للاقتصاد الكلي MFA إضافة الى عدم وجود تمويل من صندوق النقد الدولي ، فمن المحتمل أن يتخلف الأردن عن سداد ديونه مع آثار اجتماعية واقتصادية شديدة. على العكس من ذلك ، كان من المرجح أن تتجنب تونس التخلف عن السداد ، على الأقل في المدى القصير ، ولكن على حساب الآثار الاجتماعية والاقتصادية الكبيرة الأخرى.

### التكيف الهيكلي

تم استيفاء جميع الشروط (باستثناء حالة واحدة في تونس). وقد أحرز كلا البلدين تقدماً ملموساً ، بما في ذلك في المجالات ذات الصلة بالجوانب الاجتماعية، ومع ذلك ، هناك أيضاً مجالات كان الإصلاح فيها أكثر صعوبة . فعلة سبيل المثال كانت قضايا القدرات أحد العوامل التي تسببت في تأخير تنفيذ الإصلاح في كلا البلدين ، إلى جانب عدم الاستقرار السياسي وقضايا التنسيق في حالة تونس.

تم استخلاص العديد من الدروس اعتماداً على المقارنة بين البلدين، حيث تتعلق هذه الدروس بتصميم الشروط ، وتدعو إلى استخدام شحيح للشروط المتقاطعة والتركيز على المجالات التي يشارك فيها الاتحاد الأوروبي بشكل كبير (من خلال البرامج والأدوات الأخرى / برامج المساعدة المالية للاقتصاد الكلي السابقة) . كما وتم تحديد جوانب أخرى لتكون مفيدة لتعزيز الملكية ، وهي تجربة تونس مع مصفوفة المانحين ، أو يمكن أن تكون مفيدة إذا تم تنفيذها (التواصل العام حول فوائد الإصلاحات).

#### 4. التحليل الإقليمي

وفقاً للأدبيات ، تحدث تداعيات النمو وتأثيرات المساعدة الاقتصادية الكلية خارج الحدود من خلال نوعين من القنوات: قنوات الاقتصاد الكلي (التجارة ، السياحة ، الاستثمار الأجنبي المباشر ، التحويلات) وقنوات أخرى (السياسة ، الثقة ، عدم الاستقرار السياسي ، المخاوف الأمنية) . تُعد اقتصادات كلٍّ من تونس والأردن اقتصادات صغيرة كما أن التكامل في منطقة الشرق الأوسط وشمال إفريقيا متكاملة محدود للغاية . على هذا النحو ، فإنّ تونس والأردن عادة ما يكونان متلقين للصدمات وهما في الغالب عرضة للصدمات التي تؤثر في النمو من خارج المنطقة.

في حين فإنه من المتوقع أن يكون لاتفاقيتي المساعدة المالية للاقتصاد الكلي تأثيراً اقتصادياً كلياً مباشراً ومحدوداً فقط داخل المنطقة ، كما أنه من المتوقع أن تكون التأثيرات المقترنة بحزمة صندوق النقد الدولي أكبر، ربما حدثت التداعيات من خلال قنوات أقل قابلية للقياس مثل الصورة والثقة، كما وقد تكون العمليات قد دعمت أيضاً سياسة الهجرة في الاتحاد الأوروبي وأرسلت إشارة دعم ديمقراطي في المنطقة.

## **1 Introduction**

This is the Final Report for an independent, external ex-post evaluation on the Macro-Financial Assistance (MFA) operations to the Southern Neighbourhood Countries of Tunisia and Jordan (2016-2019). The evaluation focuses on MFA II to Tunisia and Jordan.

MFA I, current operations in the context of the COVID-19 pandemic, and MFA III Jordan are outside the scope of this evaluation.

The Final Report provides a comprehensive and separate analysis for each country covered under the evaluation criteria and standalone analyses (Social Impact Analysis (SIA), Debt Sustainability Analysis (DSA)). The Report is complemented by a cross-country analysis that places the two operations in perspective, as well as a regional analysis. It is accompanied by a standalone annex.

### **1.1 Structure of the Report**

The Final Report is structured as follows:

- Section 2 provides an overview of the key economic and political developments in the Southern Neighbourhood region and/or in Tunisia and Jordan during the period leading up to the MFA requests, as well as the period during and after their implementation.
- Section 3 provides a detailed description of the main characteristics of the MFA operations in scope.
- Section 4 outlines the methodologies used for data collection and analysis and work completed thus far.
- Sections 5 and 6 answer the evaluation questions for Tunisia and Jordan, respectively
- Section 7 provides some initial considerations for the comparative assessment and the full regional analysis.

The Report is supported by the following annexes:

- Annex 1 Regional and country fiches
- Annex 2 Key indexes for Tunisia and Jordan
- Annex 3 Disbursing International Monetary Fund (IMF) programmes in the Southern Neighbourhood
- Annex 4 List of completed interviews
- Annex 5 Headline summary from interviews
- Annex 6 Expert survey results
- Annex 7 Summary notes from focus group discussions
- Annex 8 Reform tables – condition by condition
- Annex 9 Case studies on external audit
- Annex 10 Detailed comparison of MFA, IMF and World Bank (WB) conditionalities
- Annex 11 Debt Sustainability Analysis
- Annex 12 Social Impact Analysis
- Annex 13 Evaluation framework
- Annex 14 List of references

## **2 Context**

### **2.1 Regional level**

#### **2.1.1 Introduction to the economic and political challenges for the EU's southern neighbours**

The EU's southern neighbours belong to the Middle East and North Africa (MENA) region, which is both vast and diverse. According to the World Bank (WB) definition, it comprises 21 countries<sup>20</sup>, which belong – broadly - to three main geographical areas: the Maghreb, the Mashreq/Levant and the Gulf. Unless otherwise specified, the statistical data will follow the WB definition of the MENA region. Other definitions may be used in some cases to provide insights into a particular subgroup of countries (e.g. the IMF considers additional countries in its MENA definition).

Several criteria can be used to assign countries to more homogenous groups<sup>21</sup>. The availability of oil resources is one, according to which both Tunisia and Jordan belong to net oil-importing countries (even if they are both hydrocarbon producers). Other common characteristics between Tunisia and Jordan are that they are both middle-income countries and do not rely substantially on imported labour, unlike other countries in the region.

Between 2000 and 2010, economic performance in the MENA region (as measured in Gross Domestic Product (GDP) held up well, despite some disparities. The region weathered the global economic and financial crisis comparatively well: oil importing countries<sup>22</sup> in the region reached an average GDP growth of 5.1% in 2000-2010, while oil exporters<sup>23</sup> had an average annual growth of 5.5% of GDP<sup>24</sup>. Despite that relative growth, however, high levels of inequality and unemployment persisted<sup>25</sup>. The Arab Spring unfolded in 2011 in Tunisia and quickly spread to other MENA countries. Its triggers were largely related to common socioeconomic, political and governance challenges (including high unemployment levels, rising prices, deep inequality, perceptions of marginalisation, authoritarian regimes, poor governance and corruption). It exposed many structural weaknesses, many related to the labour market, social cohesion and public finances (see box 2.1).

#### **2.1.2 Main internal and external vulnerabilities within the MENA region**

##### Internal vulnerabilities

- High unemployment levels, primarily among young people, women, and university graduates, in the context of a fast-growing labour force;
- Other labour market challenges, including a large public sector, lack of dynamism in the private sector, low levels of entrepreneurship, proliferation of jobs in the informal sector, skills mismatch, with greater participation needed in vocational education and training (VET) tracks, long time required to enter the labour market, low labour market female participation, large public sectors;

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<sup>20</sup> Algeria; Bahrain; Djibouti; Egypt, Arab Rep.; Iran, Islamic Rep.; Iraq; Israel; Jordan; Kuwait; Lebanon; Libya; Malta; Morocco; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; Tunisia; United Arab Emirates (UAE); West Bank and Gaza; Yemen, Rep. of (Yemen).

<sup>21</sup> The World Bank and Cammett et al. (2015) categorise the region in four groups. The OECD categorises the MENA region in three groups, <https://www.oecd.org/mena/49036903.pdf>

<sup>22</sup> According to the IMF definition, oil importers include Afghanistan, Djibouti, Egypt, Jordan, Lebanon, Mauritania, Morocco, Pakistan, Sudan, Syria, and Tunisia.

<sup>23</sup> According to the IMF definition, oil exporters include Algeria, Bahrain, Iran, Iraq, Kuwait, Libya, Oman, Qatar, Saudi Arabia, the United Arab Emirates, and Yemen.

<sup>24</sup> IMF (2015). *Regional Economic Outlook Update: Middle East and Central Asia, May 2015*. Available at <https://www.imf.org/en/Publications/REO/MECA/Issues/2017/01/07/Middle-East-and-Central-Asia>

<sup>25</sup> Unemployment rates averaged 11% in 2008 in oil-importing countries of the MENA region (IMF (2010). *Regional Economic Outlook Update: Middle East and Central Asia, October 2010*).

- High degree of intra-regional inequality resulting in brain-drain issues in countries of origin;
- Spatial disparities within countries (e.g. Tunisia);
- Limited diversification of economies (although comparatively less so for oil-importing countries);
- Distorted food and energy subsidies burdening public budgets (particularly in oil-importing countries);
- Rising public debt (oil-importing countries), raising concerns about the financial health of public finances;
- Governance issues, corruption, cronyism .

#### External vulnerabilities

- Conflict and instability in the region;
- High vulnerability to climate change, water scarcity
- Flows of refugees and migrants;
- Security threats, such as terrorism.
- High dependency on fuel and food imports, creating high inflation and vulnerability to volatile commodity pricing (for resource-poor countries).

#### Sources:

O'Sullivan, A., Rey, M. E., and Mendez, J. G. (2011). *Opportunities and challenges in the MENA region. The Arab World Competitiveness Report, 2011-2012*; World Bank (2015). *Maximising the World Bank Group's impact in the Middle East and North Africa*; McKee, M., Keulertz, M., Habibi, N., Mulligan, M. and Woertz, E. (2017). *Demographic and economic material factors in the MENA region*.

In the aftermath of the Arab Spring, Tunisia alone experienced a more consolidated democratic political transition (though this is still an ongoing process and recent political events continue to have test the young democracy). Other countries are now experiencing large-scale conflicts (Libya, Syria and Yemen). For the MENA region as a whole, instability and the threat of terrorism add security challenges to their pre-existing vulnerabilities. Countries such as Jordan and Lebanon are directly affected by conflicts in neighbouring countries and must deal with large flows of refugees. In 2017, they hosted 650,000 and 1 million registered Syrian refugees<sup>26</sup>, respectively, and had the highest refugee-to-population ratio in the world (1 in 6 people in Lebanon was a refugee, 1 in 4 when including Palestinian refugees under the United Nations Relief and Works Agency for Palestine Refugees in the Near East (UNRWA) mandate; 1 in 14 people in Jordan was a refugee, 1 in 3 when including Palestinian refugees under the UNRWA mandate)<sup>27</sup>. Tunisia also continued to host smaller numbers of refugees fleeing conflicts across the region and a growing number of asylum-seekers arriving from sub-Saharan Africa, also marked by insecurity in Libya and migration towards Europe, including continuing departures of Tunisians to Europe because of the deteriorating economic situation.

#### **2.1.2.1 Macroeconomic context**

The MENA region has a heterogeneous macroeconomic context, reflecting the uneven distribution of oil resources throughout the region. While oil is the main source of fiscal revenue for oil-exporting countries<sup>28</sup>, oil importers in the region are highly dependent on

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<sup>26</sup> <https://data2.unhcr.org/en/situations/syria>

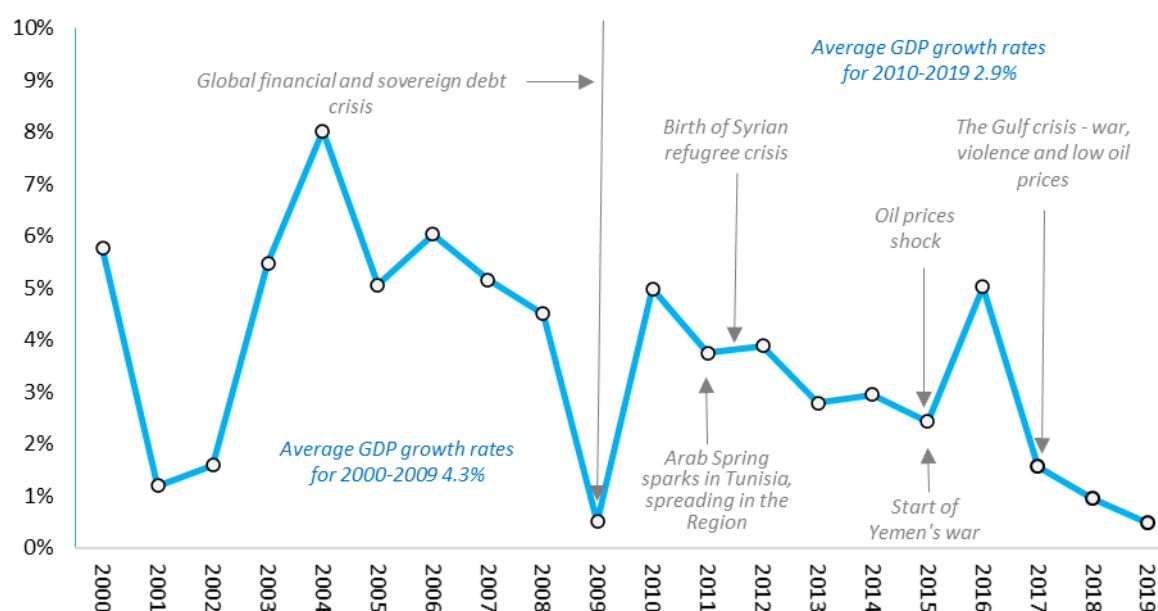
<sup>27</sup> United Nations Refugee Agency (UNHCR) (2017). Global Trends - forced displacement in 2017.

<sup>28</sup> For five oil exporters (Libya, Kuwait, Iraq, Oman, Saudi Arabia), more than 40% of their GDP is based on oil. This share ranges from 20-40% in Qatar, Algeria, UAE, Bahrain (Bruegel (2017). 'The political economy of Middle East and North Africa oil exporters in times of global decarbonisation.' *Working Paper*, 5.

industrialised countries (e.g. exports, tourism<sup>29</sup>)<sup>30</sup>. The economy experienced a downturn in 2009, mostly linked to the global financial crisis, with GDP contracting from 5.76% in 2000 to 0.50% in 2009 (average GDP growth was 4.3% in the 2000-2009 period). However, the region recovered well from the effects of the global crisis, growing at 4.98% in 2010. In the last decade, the economic activity of the MENA region was affected by social unrest, regional conflict and oil prices shocks, resulting in a lower average GDP growth rate compared to the previous period (2.9% in the 2010-2019 period) (see Figure 1).

In recent years, the economies of oil-importing countries have suffered from persistent conflict, insufficient political will, delays in implementation of structural reform, heavy dependence on imported food, and an adverse combination of rapid labour force growth<sup>31</sup> and an inflexible labour market<sup>32</sup>. Additionally, many oil-importing countries, including Jordan and Tunisia, have been running large trade and current account deficits (CAD) for more than a decade<sup>33</sup>. In a context where growth remains fragile<sup>34</sup>, acceleration of key structural reforms capable of raising aggregate labour productivity remain the priority, as these will allow the private sector to flourish and generate jobs while tackling fiscal vulnerabilities<sup>35</sup>.

Figure 1. Trajectory of GDP growth rate in MENA countries, 2000-2019



Source: World Bank.

<sup>29</sup> Tourism sector total contribution to GDP is especially important in Lebanon (18% of GDP), Jordan (16% of GDP), Tunisia (14% of GDP) and Morocco (12% of GDP) (World Travel and Tourism Council, 2019; Centre for European Reform (2020). 'Rethinking the EU's approach towards its southern neighbours'. Available at: [https://www.cer.eu/sites/default/files/pbrief\\_neighbourhood10.7.20.pdf](https://www.cer.eu/sites/default/files/pbrief_neighbourhood10.7.20.pdf)).

<sup>30</sup> Carnegie Middle East Centre (2010). *MENA oil-importing countries: great challenges ahead*. Available at: <https://carnegie-mec.org/2010/09/16/mena-oil-importing-countries-great-challenges-ahead-pub-41575>

<sup>31</sup> The population of the MENA region has grown by nearly over 100 million, or 22%, between 2007 and 2017 (World Bank).

<sup>32</sup> Carnegie Middle East Centre (2010). *MENA oil-importing countries: great challenges ahead*. Available at: <https://carnegie-mec.org/2010/09/16/mena-oil-importing-countries-great-challenges-ahead-pub-41575>

<sup>33</sup> WB (2019). 'Reforms and External Imbalances: the Labor-Productivity Connection in the Middle East and North Africa.' *MENA Economic Update*. World Bank Middle East and North Africa Region, April 2019.

<sup>34</sup> CNBC (2018). *Middle East oil importers to beat exporters in growth recovery*. Available at: <https://www.cnbc.com/2018/05/02/middle-east-oil-importers-to-beat-exporters-in-growth-recovery-imf-says.html>

<sup>35</sup> IMF (2018). *MENA oil-importing countries: risks to the recovery persist*. May 2018.



## **Economic context in the run-up to MFA II (2010-2016)**

Despite pulling through the global financial crisis relatively unscathed, oil-importing countries' economies experienced lacklustre growth, chiefly due to dampened external demand and financial inflows<sup>36</sup>. Their heavy dependence on the Euro area<sup>37</sup> - severely hit by the financial crisis - affected export receipts, tourism revenue and foreign direct investment (FDI) flows.

While youth unemployment rates in the MENA region have been the highest in the world for many years<sup>38</sup>, unemployment remained stubbornly high in the period. In 2016, for example, over 10% of the labour force in the MENA was unemployed, well above the world average, among them some 25% of young people<sup>39</sup>. The continued deterioration of the employment sector is thought to be the direct result of a weak private sector, large size of the informal sector, and delays in the practical implementation of strategic structural reform.

Countries in the MENA region presented worrying increases in public debt and fiscal deficits in the period. General government gross debt increased to 42.83% of GDP in 2016, up from 27.20% of GDP in 2010<sup>40</sup>. The fiscal deficit expanded to 8.90% in 2016 (from 1.53% in 2010<sup>41</sup>), reflecting strong pressures for subsidies and other social spending amid high unemployment rates<sup>42</sup>.

During the period, the low performance of MENA countries stemmed largely from the confluence of several factors. Oil-importing countries relying on fuel and food imports were severely affected by the volatility in the prices of commodities. Security-related issues, including the civil war in Syria, terrorist attacks in Tunisia, ongoing insurgencies in Libya, and their spillover effects, further weighed on economic prospects. Political instability, large macroeconomic imbalances, and failed attempts at a credible reform agenda kept many of the region's economies well below potential.

## **Period of implementation of MFA II (2017-2019)**

Plagued by ongoing war, violence, and low oil prices, economies in the MENA region saw a significant deterioration in GDP growth. Regional growth was 1.6% in 2017, down from 5.0% in 2016. Over the period 2018-19, geopolitical risks and intra-regional diplomatic tensions remained elevated. Lower oil prices continued to weigh on growth and macroeconomic balances among oil-exporting economies (of the MENA region), while elevated public debt held down growth in the oil-importing economies. As such, while MENA oil-importing countries were able to reduce their budget deficits to 5.9% of GDP in 2018 (from 7.2% in 2015) as a result of lower import bills,<sup>43</sup> ongoing delays as regards the implementation of structural reform furthered fiscal strains for the governments<sup>44</sup>. Government gross debt in the MENA region thus continued its upward trend, albeit at a slower pace, rising from 42.83% of GDP in 2016 to 47.31% of GDP in 2019<sup>45</sup>.

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<sup>36</sup> WBG (2012). *The Middle East and North Africa: A Year in Transition*. Available at <https://openknowledge.worldbank.org/bitstream/handle/10986/20574/752140BRI0Box30ial0Use0Only0600QN77.pdf?sequence=1&isAllowed=y>

<sup>37</sup> The orientation of oil-importing countries' exports has remained unchanged in recent decades, despite the growing importance of developing countries. Europe is the main trade partner of oil importers, accounting for 50-60% of their total exports since the 1970s.

<sup>38</sup> Source : [https://www.brookings.edu/wpcontent/uploads/2019/02/Youth\\_Unemployment\\_MENA\\_English\\_Web.pdf](https://www.brookings.edu/wpcontent/uploads/2019/02/Youth_Unemployment_MENA_English_Web.pdf)

<sup>39</sup> WB data.

<sup>40</sup> IMF and WB data.

<sup>41</sup> IMF and WB data.

<sup>42</sup> IMF (2013). *Regional Economic Outlook Update: Middle East and Central Asia*.

<sup>43</sup> MENARA (2018) 'The MENA Region in the Global Energy Markets' MENARA Working Papers No.21, October 2018. Available at [https://www.iai.it/sites/default/files/menara\\_wp\\_21.pdf](https://www.iai.it/sites/default/files/menara_wp_21.pdf)

<sup>44</sup> IMF (2019). *Regional Economic Outlook Update: Middle East and Central Asia*.

<sup>45</sup> IMF and WB data.

## Post-MFA II (2020-present)

The COVID-19 pandemic and the collapse in oil prices created the perfect storm, affecting all aspects of MENA economies. The region's real GDP growth contracted by 3.4% in 2020, while fiscal deficit levels reached 10.1%<sup>46</sup>. The oil price war between Russia and Saudi Arabia, worsened by the steep decline in worldwide demand caused by the pandemic, is heavily impacting oil-exporting countries in the region, while oil importers like Tunisia and Jordan have been benefiting from lower oil prices improving their competitiveness and reducing cost of living<sup>47</sup>. More recently, however, oil prices have started to increase again and are in line with price levels observed in 2014. As for trade, it has declined by an estimated 40% across the whole region<sup>48</sup>.

The public spending effort required by the pandemic forced MENA countries to postpone fiscal consolidation until recovery is well underway<sup>49</sup>. The fiscal impact of the pandemic has required heavy borrowing, leading to a spike in debt levels<sup>50</sup>, and credit rating downgrades across the region. This has resulted in the 'largest synchronous fiscal easing in oil importers and a significant one in oil exporters'<sup>51</sup>.

Table 1 presents an overview of the main economic indicators for the MENA region between 2010 and 2020. Annex 1 presents key country-level indicators for those in the MENA region covered by the European Union European Neighbourhood Policy (EU ENP).

Table 1. *Evolution of main economic indicators of MENA countries during the 2000s*<sup>52</sup>

	2000-2017 (average)	2018	2019	2020
Real GDP (% change)	4.5%	1.2%	0.8%	- 3.4%
Inflation (end of period) (% annual)	7.1%	9.7%	6.9%	10.5%
Unemployment rate (% labour force)	10.0%	9.8%	9.6%	10.6%
Overall fiscal balance (% of GDP)	1.7%	-2.6%	-3.8%	-10.1%
Total gross government debt (% of GDP)	36.2%	43.1%	47.6%	56.4%
Total gross external debt (% of GDP)	30.7%	42.6%	44.8%	52.4%
Current account balance (% of GDP)	7.4%	3.8%	1.2%	-3.2%
Gross official reserves (months of imports)	10.1	11.1	11.9	9.9

Sources: IMF (2021); World Bank (2021).

<sup>46</sup> IMF (2021). *Regional Economic Outlook. Middle East and Central Asia*. Available at: <file:///C:/Users/30205/Downloads/text.pdf>

<sup>47</sup> MEI (2020) 'The economic outlook for MENA amid COVID-10 and the oil price drop' Available at <https://www.mei.edu/publications/economic-outlook-mena-amid-covid-19-and-oil-price-drop>

<sup>48</sup> United Nations Conference on Trade and Development (UNCTAD) (2020). *Trade and Development Report 2020*. Available at [https://unctad.org/system/files/official-document/trd2020\\_en.pdf](https://unctad.org/system/files/official-document/trd2020_en.pdf)

<sup>49</sup> IMF (2020). MENA economic update: trading together - reviving Middle East and North Africa regional integration in the post-COVID era.

<sup>50</sup> Regional debt is expected to rise by 64% by 2025 (IMF, 2020).

<sup>51</sup> IMF (2020). *Regional Economic Outlook Update: Middle East and Central Asia*.

<sup>52</sup> IMF. 2021. 'Regional Economic Outlook - Middle East and Central Asia.' Available at: <file:///C:/Users/30205/Downloads/text.pdf>; World Bank. 2021. 'Unemployment, total (% of total labor force) (modeled ILO estimate) - Middle East & North Africa.' Available at: <https://data.worldbank.org/indicator/SL.UEM.TOTL.ZS?locations=ZQ>

Note: MENA countries here refer to: Algeria, Bahrain, Djibouti, Egypt, Iran, Iraq, Jordan, Kuwait, Lebanon, Libya, Mauritania, Morocco, Oman, Qatar, Saudi Arabia, Somalia, Sudan, Syria, Tunisia, UAE, West Bank and Gaza, and Yemen

## **2.2 Tunisia**

### **2.2.1 Political context – Tunisia’s bumpy path to democracy**

Tunisia is often portrayed as a successful example of democratic transition. Prompted by the *Jasmine revolution* initiated in 2011, it remains the sole country in North Africa committed to democracy. The past decade has seen important milestones achieved, including the approval of one of the Arab world’s most progressive constitutions in 2014, the formation of the Constituent Assembly, freedom of the press<sup>53</sup>, and free elections since 2011. In economic terms, however, it has been a disappointing decade. The political transition created high expectations within the population that so far remain unfulfilled, threatening the democratic process<sup>54</sup>. Despite implementing important reforms, the new system has not addressed major economic challenges and Tunisians remain discontent with their living conditions. Increasing inequality, high unemployment, lack of trust in the political class, continuous social unrest and a deteriorating security situation arising from terrorism, as well as spillover effects from the crises in Syria and Libya, among others, have impacted Tunisia’s path towards becoming a fully-fledged democracy. Recent political unrest has further exacerbated these existing challenges. In late July 2021, President Kais Saied removed Prime Minister Hichem Mechichi and suspended Parliament. The move came following mass demonstrations in several Tunisian cities. Protesters demanded the government’s removal after a spike in COVID-19 cases that aggravated economic troubles. Initially, the suspension of Parliament was expected to be in place for a 30-day period. However, in late August, the President announced a renewed extension until further notice. The President thus retains executive authority and there is no indication of when Parliament will resume.

### **The situation in the run-up to MFA II (2010-2016)**

The 2011 revolution cast the spotlight onto the economic and social difficulties of Tunisians. The uprising was sparked by a greater call for democracy, employment and future development prospects<sup>55</sup>. Youth unemployment had reached a record high of 30% (late 2010) and total unemployed hovered around 13%, while positive economic growth experienced in the three years prior to the revolution disguised a high scale of unaddressed socioeconomic issues – low value-added economy with high levels of unemployment, growing regional inequality, weak state institutions, clientelism and rampant corruption, rapidly rising food prices<sup>56</sup>, lack of political freedom and poor living conditions<sup>57</sup>. In this context, the self-immolation of Mohamed Bouazizi, a young vegetable seller, in the town of Sidi Bouzid in mid-December 2010 ignited nationwide protests<sup>58</sup> and eventually led to the ousting of long-time

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<sup>53</sup> World Press Freedom Index (2020). Tunisia. Available at: <https://rsf.org/en/tunisia>

<sup>54</sup> New York Times (2018). ‘Belt-tightening demands put Tunisia’s democracy at risk.’ Available at: <https://www.nytimes.com/2018/05/03/world/middleeast/tunisia-democracy-economy-reform.html>

<sup>55</sup> A.R.U. The unexpected awakening of Tunisia: the Jasmine Revolution.

<sup>56</sup> Tunisia’s food price index peaked at 32% in the second half of 2010 (African Development Bank (AfDB) (2012). *Inflation in Tunisia: perception and reality in a context of transition*. Available at: [https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ECON%20Vincent%20notes%20avril%202012%20anglais\\_ECON%20Vincent%20notes%20avril%202012%20anglais.pdf](https://www.afdb.org/fileadmin/uploads/afdb/Documents/Publications/ECON%20Vincent%20notes%20avril%202012%20anglais_ECON%20Vincent%20notes%20avril%202012%20anglais.pdf)

<sup>57</sup> Petersson, C. (2011). ‘Freedom of expression and the downfall of a regime: The Tunisian revolution and the transition to democracy.’ Available at: <http://lup.lub.lu.se/luur/download?func=downloadFile&recordId=2371802&fileId=2371803>

<sup>58</sup> *ibid.*

President Ben Ali. The subsequent democratic transition<sup>59</sup> saw three governments within three months<sup>60</sup>.

Following the authorisation of many new parties, the first free democratic legislative elections were held on 23 October 2011. The subsequent years were marked by intense political polarisation between Islamists (Ennahda party) and secularists, peaking in the wake of the assassination of two opposition leaders in 2013, which triggered new protests demanding the dissolution of the Constituent Assembly. Tunisia's new Constitution was approved in January 2014 by the National Assembly, after more than two years of fractious debate, mass street protests, and political assassinations. The Tunisian National Dialogue Quartet, a group of four civil society organisations, also played a major role towards Tunisia's democratic transition, for which they were awarded the Nobel Peace Prize in 2015.

In 2015, however, the country was struck by three major terrorist attacks<sup>61</sup> and an attempted invasion by Daesh in March 2016<sup>62</sup> that heavily impacted the tourism and transport, investment and, ultimately, the entire Tunisian economy. Tunisian authorities thus requested a new MFA operation (MFA II) in August 2015 that eventually entered into force in August 2017.

### **Socio-political context during MFA II implementation (2017 – 2019)**

MFA II came at a time of significant dissatisfaction among Tunisians, not only with the political system, but with the very institution of democracy<sup>63</sup>. The faltering economy, coupled with tax and price hikes introduced by the government seeking to reduce the budget deficit, and rapidly rising debt led to a series of anti-austerity demonstrations in 2017 and 2018. The first local elections after the Arab Spring of 2011 were marked by a low turnout. Experts reported that they were, by and large, in line with international legal standards for elections and good practices successfully accomplished. In July 2019, the death in office of the first ever democratically elected President, Beji Caid Essebsi, brought another shift in the political landscape.

### **Post MFA II landscape (2020-present)**

New parliamentary elections took place in October 2019, against a backdrop of perceived high levels of corruption and growing mistrust of the political elite<sup>64</sup>. They resulted in a parliament more fragmented than ever<sup>65</sup>, that could not form a government until February 2020. Months later, Prime Minister Elyes Fafhakh had to resign over allegations of conflicts of interest, and a new government - the third in less than a year<sup>66</sup> and primarily composed of technocrats and long-time government functionaries - took office in early September 2020<sup>67</sup>.

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<sup>59</sup> Cornell University Library. *Arab Spring: a research & study guide: Tunisia*. Available at: <http://guides.library.cornell.edu/c.php?g=31688&p=200750>

<sup>60</sup> Two governments under Mohamed Ghannouchi, the third led by Beji Caid Essebsi (Head of State from 2014 to 2019) who was in charge of organising the 2011 legislative elections.

<sup>61</sup> Bardo Museum attack in March, Sousse attack in June and suicide bombing attack in Tunis in November.

<sup>62</sup> The Guardian (2016). 'Tunisia border attack by suspected Isis forces kills 52.' Available at: <https://www.ft.com/content/e7a728be-e445-11e5-a09b-1f8b0d268c39>

<sup>63</sup> Şebnem Yardımçı-Geyikçi & Özlem Tür (2018). 'Rethinking the Tunisian miracle: a party politics view.' *Democratisation*, 25(5), 787-803. DOI: 10.1080/13510347.2017.1422120.

<sup>64</sup> 75% of Tunisians surveyed in December 2019 argued that Members of Parliament do 'nothing' to address their needs, while 41% rated the government's performance as 'very bad' (International Republican Institute (2019). *Public Opinion Survey: Residents of Tunisia*'. Available at: [https://www.iri.org/sites/default/files/tunisia\\_final\\_slides.pdf](https://www.iri.org/sites/default/files/tunisia_final_slides.pdf)).

<sup>65</sup> United States Institute of Peace (2019). 'In Tunisia, democratic elections were easy—now comes the hard part' Available at: <https://www.usip.org/publications/2019/10/tunisia-democratic-elections-were-easy-now-comes-hard-part>

<sup>66</sup> Since 2011, Tunisia has seen at least 12 government changes, largely and negatively impacting public trust in political parties and institutions

<sup>67</sup> United States Institute of Peace (2021). 'Where does Tunisia's transition stand 10 years after Ben Ali?' Available at: <https://www.usip.org/publications/2021/01/where-does-tunisia-s-transition-stand-10-years-after-ben-ali>

A decade after the events that triggered the Jasmine Revolution, new protests occurred throughout the country demanding a 'new revolution'<sup>68</sup>. Despite some indisputable achievements, 10 years after the anti-government outbreaks against rising living costs and unemployment, Tunisia is still struggling to deliver economic opportunities - especially among women, educated young people, and inner deprived regions - while the country's economic malaise has fuelled a rise in risky forms of emigration<sup>69</sup>. These challenges have been exacerbated by COVID-19, which has immersed the country in the worst social and economic crisis in its history<sup>70</sup>.

Table 2. Tunisia political overview, 2010-2020

Timing	Event
December 2010	Self-immolation incident involving a young street vendor initiated the <i>Jasmine Revolution</i> , with protests breaking out over unemployment and political restrictions
January 2011	President Ben Ali flees the country amid continuing protests. Democracy transition starts
23 October 2011	First free democratic elections are held for the election of a Constituent Assembly with the main mandate of drafting a new Constitution
December 2011	Coalition government, commonly referred as the Troika, is formed, with Ennahda's Hamadi Jebali as Prime Minister
2012	Emergence of violent Islamist groups
February 2013 July 2013	Assassination of opposition leaders Chokri Belaid and M. Al-Brahmi prompt violent protests across the country
January 2014	New Constitution is approved, guaranteeing freedoms and human rights
October 2014	Legislative elections are held and Beji Caid Essebsi (Nidaa Tounes) is elected President
Nov/Dec 2014	Habib Essid, an independent bureaucrat was nominated as Prime Minister after presidential elections
March 2015 June 2015	Terrorist attacks at Tunis's Bardo Museum (22 killed) and seaside city of Sousse (38 killed), causing devastating economy impact
November 2015	Terrorist attack in Mohamed V Avenue (Tunis), bus bombing killed at least 12 people
March 2016	Islamic State forces (Daesh) attempts to seize the city of Ben Gardane. Attempted invasion repulsed by the Tunisian military
2016 – 2018	Austerity measures (taxes, price hikes) taken to fight deficit lead to continuous social unrest. Growing social pressure to increase

<sup>68</sup> France24 (2021). 'Scattered clashes in Tunisia as more protests expected.' Available at: <https://www.france24.com/en/live-news/20210120-scattered-clashes-in-tunisia-as-more-protests-expected>; Africanews (2020). 'Tunisians protest for 'new revolution' on Arab Spring anniversary.' Available at: <https://www.africanews.com/2020/12/17/tunisians-protest-for-new-revolution-on-arab-spring-anniversary/>

<sup>69</sup> The Economist (2021). Free but fed up. 23 January 2021. Available at: <https://www.economist.com/middle-east-and-africa/2021/01/21/despite-democracy-tunisians-riot>

<sup>70</sup> Al-Haidari. 2020. 'Al-Mechichi: Tunisia is in the worst social and economic crisis in its history' Available at <https://bit.ly/2KgCXSU>



<b>Timing</b>	<b>Event</b>
	wages and employ more in the public sector
May 2018	Municipal elections mark the first tangible step of decentralisation. Independents won most seats, followed by Ennahda and Nidaa Tounes
July 2019	Death in office of the first-ever democratically elected President of Tunisia, Beji Caid Essebsi
October 2019	New elections are held amid accusations of corruption and growing mistrust of the political elite, resulting in a more fragmented parliament
February 2020	After months, parliament is finally able to form government, electing Elyes Fafhfakh as Prime Minister. He shortly resigned over allegations of conflicts of interest
March 2020	COVID-19 pandemic puts Tunisia in its worst social and economic crisis
September 2020	Technocratic government formed <sup>71</sup> to reform public finances
January 2021	Social protests and political/institutional blockage (tension between the government, the parliament and the Presidency).
July 2021	In light of mass protests against the Tunisian government, President Saied removed Prime Minister Mechichi and suspended Parliament. President Saied assumed executive authority.
August 2021	President Saied announced a renewed extension of the suspension of Parliament "until further notice." Many western nations have urged a quick return to the democratic process.

### **2.2.1.2 Macroeconomic context – Tunisian economy yet to take off**

A decade after the uprising, many of the original goals of the 2011 revolution remain unfulfilled<sup>72</sup>. Lacklustre growth, coupled with persistent structural weaknesses including high unemployment rates and a challenging business environment<sup>73</sup>, remain unresolved. The country's economy has been also affected by continuous social unrest and exogenous shocks, such as the Libyan conflict and terrorist attacks. While the government often resorted to fiscal loosening to address some problems, the consequence has mainly been rising deficit and ballooning debt. Most recently, a difficult economic outlook was further exacerbated by the global COVID-19 pandemic.

A discussion of the evolution of key economic indicators in Tunisia for the period 2010-2020 is provided below (please note an abridged version is also provided in Annex 1).

#### **Economic context in the run-up to MFA II (2010-2016)**

*Slowdown in economic activity*

<sup>71</sup> The current Prime Minister, Mechichi's, government was approved by the parliament on 2 September, with 134 votes in favour and 67 against. But on 16 January 2021, the Prime Minister proposed a cabinet reshuffle, affecting 11 ministers. The reshuffle was approved on 26 January, but the President refused to swear them in, citing a conflict of interest among some of the ministers.

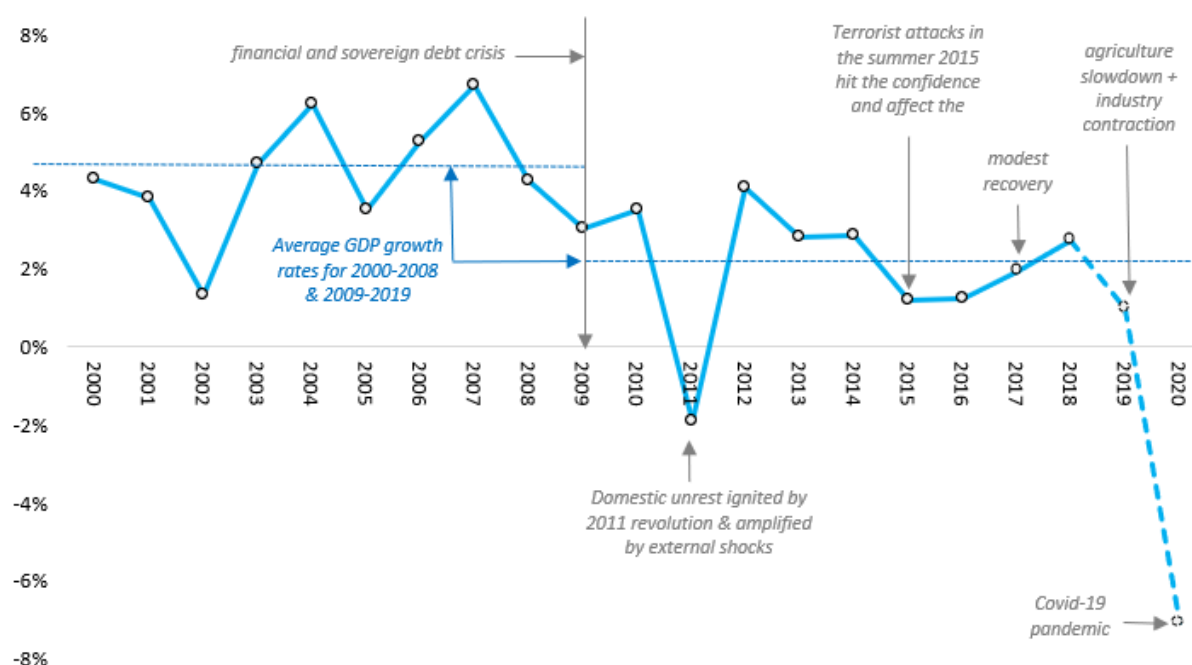
<sup>72</sup> The main motivations are summarised in protesters' most popular chants – '*shughl, hurriyya, karama wataniyya*' (work, freedom, and national dignity).

<sup>73</sup> World Bank (2020). Doing business: Tunisia. Available at: <https://www.doingbusiness.org/en/data/exploreconomies/tunisia>

Tunisia weathered the global financial crisis relatively well, avoiding recession in 2009 and 2010<sup>74</sup>. In the years leading to the Jasmine Revolution, the country boasted a real GDP per capita growth of more than 3 per cent a year<sup>75</sup>. When examined more closely, however, it is evident that good macroeconomic indicators masked several structural issues, such as a large and inefficient public sector, insufficient competition, a rigid labour market and skill mismatches leading to high unemployment (among women and young people specifically), and weak transparency and economic governance.

In the short term, the revolution brought about domestic unrest and increased economic uncertainty, which, combined with the neighbouring Libyan conflict, led to Tunisia's GDP contracting by nearly 2 per cent in 2011. After a period of modest recovery between 2012 and 2014 - supported, *inter alia*, by stable food production, a gradual rebound in tourism, FDI inflows, and a higher growth-supporting fiscal expansion - the economy was again severely hit by the terrorist attacks in 2015, with output falling to 1.2 per cent.

Figure 2. Trajectory of GDP growth rate in Tunisia, 2000-2020



Source: IMF data.

### Persistently rising unemployment

Unemployment in Tunisia remained persistently high, especially among young people and (educated) women, over the period 2010-16. Supply pressures in the Tunisian labour market in part explained high levels of unemployment. As such, there were more people willing to work or looking for a job than public and private employers were ready to hire. Furthermore, the Tunisian education system persistently failed to respond to the needs of employers in both the private and public sectors, as a result of which a mismatch between job characteristics and worker skills became increasingly widespread. Finally, inefficient and strict regulations governing the Tunisian labour market constituted an additional barrier to employment in the longer term. Strong protection laws, for instance, made hiring more costly, in turn fuelling a disincentive to create jobs.

<sup>74</sup> IMF (2010). *Tunisia weathers crisis well, but unemployment persists*. Available at: <http://www.imf.org/en/News/Articles/2015/09/28/04/53/socar091010a>

<sup>75</sup> IMF data, GDP per capita at constant prices.

### **Inflation gaining momentum**

Inflation remained stable between the early and mid-2010s. In the years that followed, however, core inflation gained momentum and, by late 2016/ early 2017, it increased beyond 5.0 per cent<sup>76</sup>. The increase in prices was largely fuelled by exchange rate depreciation, wage increases and credit growth.

Rising inflation led the CBT to tighten monetary policy more forcefully from 2018 onwards. As such, the CBT increased its policy rate, while at the same time it contained the volume of its refinancing operations. The reduction of the refinancing volume was mainly the result of the tightening of the Loan-to-Deposit (LTD) ratio. As a result of more effective policy tightening, inflation declined from its peak of 7.7 percent in June 2018 to 5.8 percent in February 2020.

### **Rising fiscal deficit and ballooning public debt**

Tunisia's fiscal deficit and public debt burden rose sharply in the years following the country's 2011 revolution, before coming down again from 2013 onwards. This was the result of subsidy cuts and other fiscal consolidation measures taken by the state. However, more modest than expected growth in 2016 have seen both the deficit and debt increase again thereon. Public sector wages were among the key factors putting upward pressure on the deficit. In absolute terms, the figure nearly doubled between 2010 and 2016, from TD6.8bn to TD13bn<sup>77</sup>. This raised the proportion of public spending accounted for by salary spending from 47.6 per cent in 2010 to 53.9 per cent in 2016.

### **An external sector in continuing crisis**

Tunisia consistently ran a fairly small current account deficit for most of the late 2000s. However, as with many economic indicators (described above), the deficit worsened significantly in the years immediately following the country's revolution, jumping to 7.4 per cent in 2011 and peaking at 9.1 per cent in 2014. The rise in the deficit had a number of implications for the broader economy, including a tightening in banking sector liquidity, which restricted lending growth, and by extension wider economic expansion. The shortfall also put downward pressure on the dinar, which consistently declined over the period and on the country's foreign exchange reserves.

The growth of the deficit was driven, in large part, by a slowdown in export growth. As such, while the value of exports rose at a compound annual growth rate of 11.6 per cent between 2002 and 2010, it dropped to less than 3.0 per cent between 2011 and 2016 due to various factors, including the eurozone slowdown. Tourism receipts also declined significantly, owing to the international financial crisis in 2007-8, considerable political upheaval that followed the 2011 revolution and the terrorist attacks that took place in 2015.

### **Implementation of MFA II (2017-2019)**

The Tunisian economy saw a moderate expansion in 2017 that continued in 2018, driven by agriculture, greater exports, and tourism recovery. During this period, the government made some progress with selected structural reforms (e.g. reform of the financial system by opening a money exchange office, certain energy subsidy reforms, improved social protection programmes, implementation of new laws on renewable energy, the Start-Up Act, and the new Investment Law). It also managed to introduce some unpopular consolidation measures aimed at balancing the fiscal deficit, which included higher taxes, helping to reduce the deficit from 6% of GDP in 2017 to 3.9% in 2019. Debt remained elevated (73% in 2018), however, limiting the authorities' fiscal headroom. Inflation, averaging 4.6% between 2010-2017, rose to 7% in 2018, while unemployment remained at around 15%.

Driven by a slowdown in agriculture and a contraction in industry, GDP fell to 1% in 2019. High unemployment rates persisted, while the CAD widened on the back of higher oil prices.

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<sup>76</sup> IMF eLibrary. 2020. 'Tunisia Monetary Policy Since the Arab Spring: The Fall of the Exchange Rate Anchor and Rise of Inflation Targeting.' Available at: <https://www.elibrary.imf.org/view/journals/001/2020/167/article-A001-en.xml>

<sup>77</sup> Oxford Business Group



There were some slippages in fiscal stabilisation, through civil service wage hikes and a pause in energy price hikes (partly due to pressures stemming from elections in 2019), while more generally, 'short term trade-offs between economic and social stability weighted on reforms'<sup>78</sup>.

### **Post-MFA II operation (2020-present)**

The COVID-19 outbreak and subsequent economic crisis has severely damaged the Tunisian economy, abruptly changing the positive trajectory of the main macroeconomy indicators<sup>79</sup> (see Figure 2). In 2020, real GDP growth in Tunisia contracted by almost 9.0%<sup>80</sup>, resulting, among other things, in an increase in poverty and unemployment rates, and a further deterioration of the country's already weak fiscal stance. The lack of fiscal space became clear, with the IMF estimating that Tunisia budgeted just 1.8% of GDP to support individuals and firms during the pandemic (against a global average of 5.9%)<sup>81</sup>.

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<sup>78</sup> IMF (2019). Country report. July 2019.

<sup>79</sup> GDP was expected to grow at 3.2% in 2020 and 3.4% in 2021 (IMF (2019). *Tunisia Country Report*. 19/223.

<sup>80</sup> IMF database.

<sup>81</sup> The Economist (2021). 'Free but fed up'. 23 January 2021. Available at: <https://www.economist.com/middle-east-and-africa/2021/01/21/despite-democracy-tunisians-riot>

## **2.3 Jordan**

### **2.3.1 Political context – Jordan’s refugee crisis**

Jordan has been historically depicted as a regional migration crossroads. With one in every 14 people being a refugee (2019)<sup>82</sup>, the country has one of the highest refugee-to-population ratios, second only to Lebanon. Despite wider uprisings throughout 2011, Jordan effectively maintained domestic stability<sup>83</sup> and sound governance, and avoided concessions to democratise. Rather, the country has gained a reputation as a safe haven in the region, avoiding any major terrorist attacks, preserving its sovereignty and enjoying relative internal stability over the last decade.

King Abdullah II has ruled the country since 1999, and the Hashemite Kingdom of Jordan has been at the forefront of Arab countries in terms of advancement of democratic freedoms<sup>84</sup>. It has taken pronounced measures towards a stronger foundation for a democratic system, including enhancing the multi-party political system, establishing a Constitutional Court, and implementing new electoral laws.

Nevertheless, Jordan’s political context is somewhat intertwined with regional developments. Since the beginning of 2011, regional instability presents a risk to political stability, while a large-scale influx of refugees has put a heavy strain on the socioeconomic and resource infrastructure. Despite increased support from the international donor community, Jordan has not addressed the issues resulting from this rapid expansion of refugees. Strains on government funds, competition for services and resources between national citizens and refugees, and rising unemployment have undermined the stability of the Jordanian political structure and worsened the economic situation for the poorest and most marginalised groups in the country.

From 2010, the impact of the global economic recession, combined with political and social tensions, created the ‘Arab Spring’. In 2011, Jordan, in particular, was affected by the political instability in the region and the economic effects of the conflicts in Syria and Iraq. This resulted in an influx of refugees and disruption of gas imports from Egypt. The interruption caused by the sabotage of the Arab Gas Pipeline in the Sinai Peninsula further intensified in 2012. These interruptions forced the government to replace gas with more expensive oil imports, which increased the import bill significantly. As a result – although due in part to internal politics and social unrest - several protests erupted across the nation, most of which were peaceful.

One of the main challenges was the huge increase in refugees, reaching up to 250,000 in one year alone following 2011. Alongside increasing political instability – most notably, a swift turnover in power, with several governments in quick succession appointed by King Abdullah - a perfect storm developed, centred on internal tensions and social unrest, fostered by the unstable political backdrop, a challenging economic picture and the growing number of refugees from neighbouring states.

Mass protests saw constitutional reforms implemented, but these were criticised by some political factions. Deeming them mere lip service, due to unequal constituency sizes and lack of real parliamentary power<sup>85</sup>, these political parties boycotted the 2013 elections. In 2015, the government in Jordan replaced the current ‘one man one vote’ system with a list-based system, a step closer to democracy. In 2016, the first elections were held under this proportional representation election regime and a new government was sworn in, with a

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<sup>82</sup> <https://www.weforum.org/agenda/2019/03/mena-countries-in-the-middle-east-have-the-highest-proportion-of-refugees-in-the-world/>

<sup>83</sup> Although social unrest in Jordan as a consequence of the Arab Spring occurred on a far smaller scale than in neighbouring countries, there were three successive governments formed within nine months in 2011.

<sup>84</sup> According to the Arab Democratic Index, Jordan has regularly ranked as the top or second Arab country in terms of democratic freedoms in recent years. Available at: <http://www.arab-reform.net/en/node/285>

<sup>85</sup> <https://www.bbc.com/news/world-middle-east-14636713>

mandate to speed-up economic reforms and implement austerity measures. Subsequently, the austerity programmes, combined with widespread unemployment and an increase in the cost of living, led to extensive protests and the collapse of that government in 2018.

In November 2020, amid worsening economic conditions and rising COVID-19 cases, the country held parliamentary elections just one month after parliament was dissolved and a new government was appointed. Prime Minister Bisher Khasawneh, the 13<sup>th</sup> prime minister in the reign of King Abdullah and head of the new government, was tasked with reviving economic activity and curbing the pandemic, while safeguarding citizens' livelihoods.

*Table 3. Jordan political overview, 2010-2020*

<b>Timing</b>	<b>Event<sup>86</sup></b>
November 2010	Loyalists of King Abdullah II win a majority of parliamentary seats
January 2011	Encouraged by Tunisian street protests and the Arab Spring movement across the region, thousands of Jordanians demonstrate peacefully to press for reforms
January 2011	King Abdullah II fires his government in response to protests, names Bakhit Prime Minister and charges him with launching reforms
October 2011-April 2012	King Abdullah replaces Prime Minister Bakhit with al-Khasawneh. The latter resigns a few months later, and King Abdullah appoints Fayez al-Tarawneh as his successor
October 2012	King Abdullah calls early parliamentary elections for January 2013 and appoints a new prime minister
January 2013	Pro-government candidates are victorious in parliamentary elections, which are boycotted by the main opposition party
September 2016	First parliamentary elections under proportional representation since 1989. A new government is sworn in
August 2017	Jordan and Iraq reopen their main border crossing for the first time in two years
June 2018	Street protests against proposed Income Tax Law and other measures introduced as part of an austerity programme. As a result of this, King Abdullah replaces Prime Minister Almulqi with Alrazzaz
March 2020	COVID-19 spreads across the country and first cases are confirmed
September 2020	Parliament is dissolved, paving the way for a November election
October 2020	A new prime minister is appointed by King Abdullah. Prime Minister Bisher Khasawneh is the 13 <sup>th</sup> prime minister to serve during the reign of King Abdullah
November 2020	Parliamentary elections are held to elect members of parliament. Some 99 of the 130 members win for the first time

<sup>86</sup> <http://www.timelines.ws/countries/JORDAN.HTML> ; <https://www.bbc.com/news/world-middle-east-14636713>

## **2.3.2 Macroeconomic context – Jordanian economy yet to take off**

### **Economic context in the run-up to MFA II (2010-2016)**

#### *Deteriorating economic conditions*

At the start of the period, Jordan was severely affected by regional and domestic political tensions. The ensuing economic crisis dampened macroeconomic resilience and amplified existing vulnerabilities. Compared to the previous period (2003-2009), Jordan's economic activity fell sharply, with the GDP growth rate plunging to a modest 2.3% in 2010 (down from 7.2% in 2008) and remained sluggish in the years that followed.

#### *Worsening public finances*

Over the period, public finances were under severe pressure. From 2011 to 2012, the interruption of gas supplies from Egypt drove the Jordanian government to replace gas with more expensive oil imports. This led to a significant increase in the country's import bill<sup>87</sup> and contributed to significant losses for the publicly-owned National Electric Power Company (NEPCO). The continued worsening of the global and regional economic environment, along with the escalation of political turmoil and social unrest, contributed to a marked widening of Jordan's overall fiscal deficit (excluding grants) in the years that followed. Greater fiscal consolidation efforts nevertheless helped to contain fiscal imbalances. As such, the combined deficit of the central government and NEPCO declined from 9.2% of GDP in 2014 to 3.0% in 2016, brought about mainly by a sharp improvement in NEPCO's operating balance and, to a lesser extent, a lower central-government primary deficit<sup>88</sup>.

#### *Rampant national debt*

Mounting fiscal pressures were accompanied by extensive government borrowing and a rapid increase in gross public debt. In 2011, the public debt-to-GDP ratio increased to 71.0%<sup>89</sup>, mainly due to the issuance of debt for NEPCO. By 2012, it had reached 80.2%, following further disruptions in gas flows from Egypt, unfavourable contract renegotiations, and NEPCO's increasingly unsustainable financial position<sup>90</sup>. In 2013, a large-scale fiscal consolidation programme<sup>91</sup> was put in place to restore macroeconomic stability. Despite these efforts, high (fiscal) deficits and sluggish growth persisted and contributed to sustaining an upward trend in the debt-to-GDP ratio. Between 2014 and 2016, Jordan's gross debt-to-GDP ratio rose from 89.0% to 93.8%<sup>92</sup>.

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<sup>87</sup> [http://ec.europa.eu/economy\\_finance/eu\\_borrower/documents/council\\_proposal\\_jordan\\_en.pdf](http://ec.europa.eu/economy_finance/eu_borrower/documents/council_proposal_jordan_en.pdf), p.3.

<sup>88</sup> IMF (2017). '2017 Article IV Consultation – Press release, Staff report, and Statement by the Executive Director for Jordan.' Available at: [file:///C:/Users/30205/Downloads/cr17231%20\(1\).pdf](file:///C:/Users/30205/Downloads/cr17231%20(1).pdf)

<sup>89</sup> Ministry of Finance Jordan (2016). Available at:

[https://mof.gov.jo/ebv4.0/root\\_storage/ar/eb\\_list\\_page/%D9%86%D8%B4%D8%B1%D8%A9\\_%D9%85%D8%A7%D9%84%D9%8A%D8%A9\\_%D8%A7%D9%84%D8%AD%D9%83%D9%88%D9%85%D8%A9\\_%D9%84%D8%B4%D9%87%D8%B1\\_%D9%83%D8%A7%D9%86%D9%88%D9%86\\_%D8%AB%D8%A7%D9%86%D9%8A\\_2016.pdf](https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%86%D8%B4%D8%B1%D8%A9_%D9%85%D8%A7%D9%84%D9%8A%D8%A9_%D8%A7%D9%84%D8%AD%D9%83%D9%88%D9%85%D8%A9_%D9%84%D8%B4%D9%87%D8%B1_%D9%83%D8%A7%D9%86%D9%88%D9%86_%D8%AB%D8%A7%D9%86%D9%8A_2016.pdf)

<sup>90</sup> IMF (2013). 'Jordan: first review under the stand-by arrangement, request for waivers of non-observance of performance criteria, modification of performance criteria, and rephrasing of access—Staff Report; Press Release on the Executive Board Discussion; and Statement by the Executive Director for Jordan.' Available at: <https://www.imf.org/external/pubs/ft/scr/2013/cr13130.pdf>

<sup>91</sup> <https://www.worldbank.org/content/dam/Worldbank/document/MNA/JEM-Spring-2014.pdf>

<sup>92</sup> Ministry of Finance Jordan. See:

[https://mof.gov.jo/ebv4.0/root\\_storage/ar/eb\\_list\\_page/%D9%83%D8%A7%D9%86%D9%88%D9%86\\_%D8%A7%D9%88%D9%84\\_2018.pdf](https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%83%D8%A7%D9%86%D9%88%D9%86_%D8%A7%D9%88%D9%84_2018.pdf)

### External sector in crisis

Jordan's external position worsened significantly between 2010 and 2016. The external CAD widened to 10.0% of GDP in 2011, up from 7.0% in 2010<sup>93</sup>. This was due to robust export performance being offset by increased energy imports and declining remittances and tourism receipts<sup>94</sup>. Official transfers in 2013 helped to narrow the CAD. After recording a high of 15.0% in 2012, the CAD fell to about 10.2% of GDP in 2013<sup>95</sup>. This was primarily driven by a sizable increase in official transfers, which were an estimated 7.3% of GDP<sup>96</sup>. The external CAD resumed an upward course in 2014 and beyond. Excluding grants, it amounted to 9.0% of GDP in 2015, up from 7.0% in 2014<sup>97</sup>. This was the result of lower exports of goods and tourism and a further slowdown in remittances. The CAD was close to 10.0% of GDP by 2016<sup>98</sup>, slightly higher than in 2015, reflecting the challenging regional conditions, the Syrian refugee crisis, and the slowdown in the Gulf Cooperation Council (GCC), which had a further dampening effect on exports, remittances, and other flows.

### Accommodating monetary policy

The monetary policy was tightened in mid-2011<sup>99</sup> to sustain the attractiveness of Jordanian dinar (JD)-denominated assets and to strengthen the international reserve position. Safeguarding the exchange rate peg thus remained key to maintaining financial stability in Jordan over the period. In 2015-2016, the focus of monetary policy shifted to reviving credit and supporting growth. The Central Bank of Jordan (CBJ) gradually reduced its policy rate, which reached 2.5% by the end of 2016<sup>100</sup>. It also increased the gap between the policy and deposit window rates (from 25 to 100 basis points), in an effort to stimulate large banks to on-lend their excess liquidity to less liquid banks and thereby stimulate credit.

### Well-capitalised, profitable and robust banking system

The CBJ continued to exercise prudent regulation and supervision of the banking system, and banks remained conservative in their funding practices. The banking sector's macro-prudential indicators also remained strong—banks were mostly profitable and well-capitalised, deposits (largely JD-denominated) continued to be the major funding base, liquidity ratios and provisioning remained high, while bank private sector credit continued to grow.

### **Further macroeconomic developments during MFA II (2017-2019)**

Over the period 2017-19, Jordan continued to experience sluggish growth. The country faced a series of shocks, including the disruption of critical export routes and markets from protracted regional conflicts, the hosting of 1.3 million Syrian refugees, and rising oil prices and borrowing costs. Furthermore, despite efforts, fiscal consolidation proved difficult to maintain over the said period. Although there was important progress during 2016-17, this outcome was partly reversed during 2018-19. A such, yields from efforts to broaden the tax base and mobilise revenues, particularly from the removal of sales tax exemptions, fell short of expectations. These slippages were particularly pronounced in 2019, which saw a significant loss of tax revenue owing to a pick-up in cigarette smuggling after the re-opening of the border with Syria; delays in passing by-laws under the new income tax law; and weaker

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<sup>93</sup> IMF data.

<sup>94</sup> IMF (2012). *Country Report May 2012*.

<sup>95</sup> IMF data.

<sup>96</sup> World Bank (2014). *Jordan Economic Monitor – Resilience and Turmoil*. Available at: <file:///C:/Users/30205/Downloads/JEM-Spring-2014.pdf>

<sup>97</sup> IMF data.

<sup>98</sup> IMF (2017). *Country Report July 2017*.

<sup>99</sup> IMF (2012). *Country Report May 2012*.

<sup>100</sup> IMF (2017). *Country Report July 2017*.

import growth. Additionally, significant wage and pension increases for public sector workers, agreed in 2019 and reflected in the 2020 budget, added to expenditure pressures. The authorities continued to face persistent obstacles in reaching cost recovery in public utilities, which further amplified fiscal challenges. As such, while the authorities made some progress in containing losses at the state-owned electricity company (NEPCO), sizable losses at the water authority company (WAJ) remained. Nonetheless, Jordan's external imbalances narrowed significantly over the period, on the back of a strong recovery in exports, tourism and favourable terms of trade. However, while buoyant tourism and exports gave some impetus to economic activity in 2019, critical challenges remained, notably: low private and public investment, high unemployment, and high public debt.

A more detailed description of key macroeconomic developments in Jordan during the 2017-2019 period is provided in Section 6.3.1.1.

### **Post-MFA II operation (2020-present)**

Growth contracted by almost 2.0% in 2020<sup>101</sup>, after Jordan was hit by COVID-19-related lockdowns, border closures and a sharp fall in tourism. The fall-out for Jordan's economic growth during 2020 remained relatively modest, although bankruptcies and layoffs saw unemployment soar to about 23.0%<sup>102</sup>. The country's public finances and balance of payments have been strained by the collapse of tourism and lower remittances from workers overseas. Jordan's fiscal balance (including grants) rose to -7.0% of GDP<sup>103</sup>. The government nonetheless maintained the tempo of fiscal consolidation and reforms to combat rampant tax evasion and increase revenue collection. This may have helped to contain fiscal imbalances during the year, to a certain extent. Fiscal consolidation efforts and reform commitments have helped to maintain stable sovereign ratings at a time when other emerging markets were being downgraded.

According to a World Bank report<sup>104</sup>, Jordan's real GDP growth is projected to recover to 1.8% and 2.0% in 2021 and 2022, respectively. The gradual reopening of most of Jordan's key business and manufacturing activities are expected to boost economic activity. Exports are also expected to perform better as (external) demand begins to strengthen in the United States (US) and Gulf countries. However, recovery is contingent on continued economic activity during the COVID-19 pandemic, efficient vaccine rollout, stabilising oil prices, no further escalation of geopolitical tensions, and adequate policy measures, including public sector employees' salary increases, social safety net programmes and minimum wage increases.

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<sup>101</sup> Department of Statistics (2021). Available at: [http://www.dos.gov.jo/dos\\_home\\_a/main/economic/nat\\_account/sel2/nat\\_6/4.pdf](http://www.dos.gov.jo/dos_home_a/main/economic/nat_account/sel2/nat_6/4.pdf)

<sup>102</sup> IMF data; Department of Statistics (see: [http://www.dos.gov.jo/owa-user/owa/emp\\_unemp\\_y.show\\_tables1\\_y?lang=A&year1=2020&t\\_no=17](http://www.dos.gov.jo/owa-user/owa/emp_unemp_y.show_tables1_y?lang=A&year1=2020&t_no=17))

<sup>103</sup> Ministry of Finance Jordan. Available at: [https://mof.gov.jo/ebv4.0/root\\_storage/ar/eb\\_list\\_page/arabic\\_january\\_final\\_compressed.pdf](https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/arabic_january_final_compressed.pdf)

<sup>104</sup> The Jordan Times (2021). 'Jordan's economy to grow by 1.8% in 2021 — World Bank.' Available at: <https://www.jordantimes.com/news/local/jordans-economy-grow-18-2021-%E2%80%94-world-bank>

### **3 Design and implementation of MFA operations to the Southern Neighbourhood Countries of Tunisia and Jordan (2016-2019)**

This section describes the main features of the MFA operations to the Southern Neighbourhood Countries of Tunisia and Jordan, during the period 2016-2019. It includes the underlying theory of change for the operation and provides a brief commentary on the implementation of the operation, especially the structural reforms.

#### **3.1 History of MFA operations in the Southern Neighbourhood**

According to MFA annual reports, of the 10 countries of the Southern Neighbourhood, five (Algeria, Israel, Jordan, Lebanon, Tunisia) have already benefitted from MFA support. In the case of Algeria and Israel, the operations date back to the 1990s, while the operation to Lebanon was approved in 2007.

The use of MFA in the Southern Neighbourhood rose sharply following the Arab Spring, with six<sup>105</sup> operations approved during the last decade, all in Tunisia and Jordan (three in each country). The four operations approved over the period 2010-2019<sup>106</sup> represented 17% of authorised and 24% of disbursed MFA funds. Compared to 2000-2009, the operation to Lebanon only represented 5% of the authorised MFA funds and was not fully disbursed.

The involvement of the IMF in the region has followed the same development path, with an increase in the number of programmes approved after the Arab Spring. In addition to Tunisia and Jordan, the IMF also covered Egypt and, to some extent, Morocco (through Precautionary and Liquidity Line) (see Annex 3).

#### **3.2 Tunisia**

##### **3.2.1 MFA design: underlying theory of change**

The second MFA to Tunisia (MFA II) follows an initial MFA operation implemented between 2014 and 2017. MFA II was requested by the Tunisian authorities in August 2015, shortly after the March and June terrorist attacks, as Tunisia's economic and financial situation further deteriorated.

The MFA II was approved by the European Parliament and the Council in July 2016, shortly after the Commission proposal (February 2016), while MFA I was still running. It consisted of up to EUR 500 million in the form of long-term loans, a step change compared to MFA I (EUR 300 million).

Fifteen policy conditions were specified under seven reform areas in order for the second and third MFA II disbursements to be made. They covered the following areas: (i) Public finance management (PFM) and civil service reform, (ii) taxation, (iii) social protection, (iv) labour market; (v) financial sector, (vi) investment climate, and (vii) tourism. A number of those conditions went further than those prescribed under MFA I, notably in relation to the targeting of social assistance programmes and the independence of the Cour des Comptes (CdC), the country's supreme audit institution.

The objective of the programme was to support the restoration of a sustainable external financing situation for Tunisia, complementing resources made available under the IMF programme, and to support the ambitious reform programme initiated by the authorities under MFA I.

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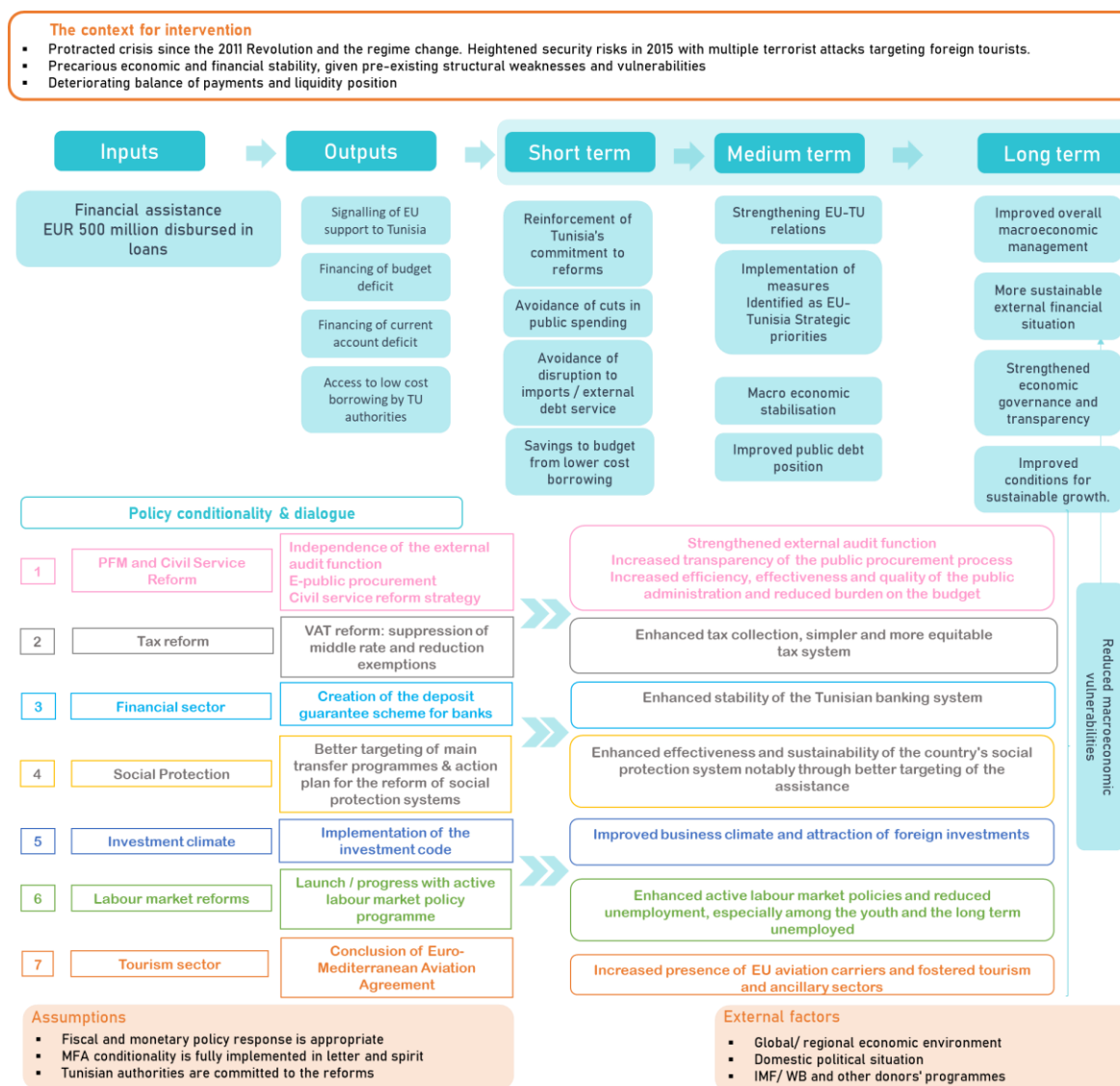
<sup>105</sup> Includes one operation in Jordan (MFA III), which has been topped up by the COVID-19 package.

<sup>106</sup> MFA reports data cover the period 1990-2019.



The theory of change (Figure 3.1) illustrates how the MFA financial assistance and MFA conditions were expected to contribute to these objectives. Key underlying assumptions and other external factors potentially influencing the direction and scale of changes are clearly spelled out.

Figure 3. Theory of change for MFA II to Tunisia, 2016-2019



### 3.2.2 Implementation timetable

The MFA II was approved by the European Parliament and the Council in July 2016<sup>107</sup>, as MFA I was still being implemented. Starting the negotiations in parallel to MFA I implementation allowed sufficient time for the negotiations. Negotiations on the Loan Agreement and the Memorandum of Understanding (MoU)<sup>108</sup> continued for nine months after the adoption of the MFA decision, reportedly due to a lack of responsiveness from the Tunisian side. This may reflect the lack of urgency in that MFA I had to completed

<sup>107</sup> Decision (EU) 2016/1112 of the European Parliament and of the Council of 6 July 2016 providing further MFA to Tunisia. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32016D1112&from=EN>

<sup>108</sup> European Commission (2017). Memorandum of Understanding between the European Union as lender and the Republic of Tunisia as borrower. Available at: [https://ec.europa.eu/info/sites/info/files/27042017\\_mou\\_signed\\_tunisia.pdf](https://ec.europa.eu/info/sites/info/files/27042017_mou_signed_tunisia.pdf)



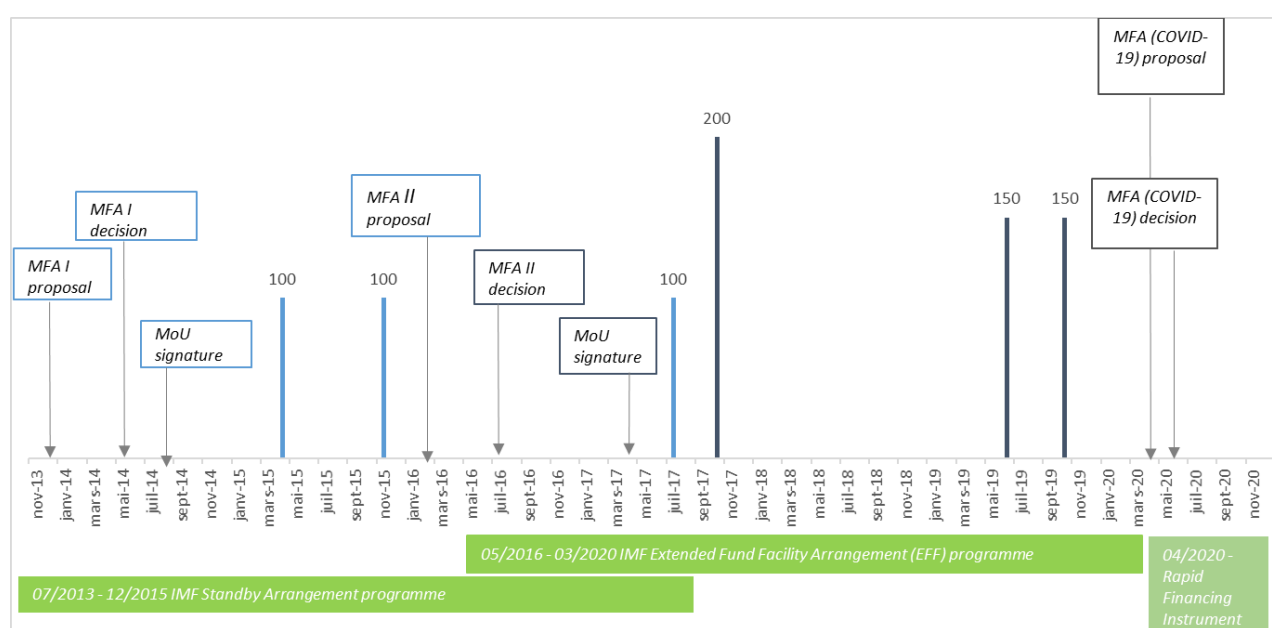
before starting the implementation of MFA II, and delays were encountered in meeting the conditions of the last tranche of MFA I.

The Loan Agreement and the MoU were ratified by the Tunisian Parliament in August 2017, within four months (compared to seven months for MFA I). This allowed the first disbursement of EUR 200 million to be made in October 2017, soon after the last tranche of MFA I was disbursed.

Overall, no delay was experienced in relation to the decision-making process, neither on the EU nor the Tunisian side, unlike under MFA I (where the ratification of the MoU by the Tunisian Parliament had taken seven months after the signature by the authorities).

The disbursement of the second and third tranches (EUR 150 million each) both took place in 2019, after a long time lag (due to the slow progress on some of the conditions – see Section 3.2.3) and shortly before the expiry of the operation.

Figure 4. Overview of MFA and IMF support to Tunisia, 2010-2020



Source: ICF based on the Directorate-General for Economic and Financial Affairs (DG ECFIN) and IMF websites.

Although not included in the scope of this study, the Tunisian authorities recently sought and obtained another MFA programme of EUR 600 million to help them to overcome the economic crisis in the wake of the COVID-19 pandemic. The decision was adopted by the European Parliament and the Council on 25 May 2020<sup>4</sup> as part of a proposal to grant MFA support to 10 partners, with a total amount of EUR 3 billion<sup>109</sup>.

<sup>109</sup> Delays in the Tunisian decision-making process have also affected implementation. The negotiations on the MoU and the Loan Facility Agreement, initially proposed by the Commission in May 2020, concluded in October 2020 (the documents were officially signed on 24 November 2020). However, due to the protracted ratification of the Tunisian National Assembly, they only entered into force on 11 May 2021. The first instalment of EUR 300 million was disbursed by the EU on 1 June 2021.

Table 4. Overview of MFA II to Tunisia

Rationale for the operation	MFA II characteristics	Main areas of reform
<p><i>To ease the Country's external financing constraints, alleviate its balance of payments and budgetary needs, strengthen its foreign exchange reserve position, and help the Country to address the current external and financial vulnerabilities aggravated by regional instability and the impact of last year's terrorist attacks</i></p>	<p>EUR 500 million (loan)</p> <p><u>Disbursement approval dates</u></p> <p>1<sup>st</sup> instalment of EUR 200 million in October 2017</p> <p>2<sup>nd</sup> instalment of EUR 150 million in June 2019</p> <p>3<sup>rd</sup> instalment of EUR 150 million in October 2019</p> <p>* <i>Maturity of loan: 13-16 years (depending on the tranche)</i></p> <p>** <i>Interest rate: 0.3-0.75% (depending on the tranche)</i></p>	<p>The conditionality attached to the MFA II provided to Tunisia covered the following areas<sup>6</sup>:</p> <p><u>Second instalment</u></p> <p><b>PFM and civil service reform</b></p> <p>Action 1: Adoption of a comprehensive strategy for the reform of the civil service, with a view to improving the efficiency, effectiveness and quality of the public administration, while reducing its burden on the budget.</p> <p>Action 2: Adoption of a new law on the CdC, with a view to strengthening the external audit of public accounts.</p> <p><b>Tax reform</b></p> <p>Action 3: Reform of VAT, with a view to enhancing tax collection while moving towards a simpler and more equitable tax system. 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.</p> <p><b>Social protection</b></p> <p>Action 4: submission of a Strategic Orientation Note on the reform of the main social transfer programmes by the Centre de Recherches et d'Etudes Sociales (CRES).</p> <p>Action 5: Submission to parliament of a new law that will replace the current legislative framework governing the social transfer programmes (<i>Programme National d'Aide aux Familles Nécessiteuses</i> (PNAFN) and <i>Cartes de soins</i>).</p> <p><b>Labour market reform</b></p> <p>Action 6: Progress in the implementation of the FORSATĪ programme, with a view to enhancing active labour market policies (ALMPs) and reducing</p>

Rationale for the operation	MFA II characteristics	Main areas of reform
		<p>unemployment, especially among young people.</p> <p>Action 7: Launch of a new ALMP programme (<i>Contrat Dignité</i>), with sufficient backing under the 2017 Budget Law, aimed at reintegrating into the labour market job seekers who have been unemployed for over two years.</p> <p><b>Investment climate</b></p> <p>Action 8: Adoption of the following by-laws for the implementation of the Code: 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; 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 fiscal incentives applicable to investments.</p> <p><u>Third instalment</u></p> <p><b>PFM</b></p> <p>Action 9: Ensure unrestricted access to the TUNEPS system of e-procurement for all bidders.</p> <p><b>Tax reform</b></p> <p>Action 10: Undertaking of: 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.</p> <p><b>Social protection</b></p> <p>Action 11: Completion of the survey of the approximately 900,000 households currently benefiting from the main social transfer programmes (PNAFN and <i>Cartes de soins</i>) and publication of the results.</p> <p>Action 12: Adoption of an Action Plan for the implementation of reforms</p>

<b>Rationale for the operation</b>	<b>MFA II characteristics</b>	<b>Main areas of reform</b>
		<p>aimed at improving the effectiveness and sustainability of the country's social protection system (including the main cash transfer programmes and the pension and healthcare systems).</p> <p><b>Investment climate</b></p> <p>Action 13: Adoption of a decree regulating access by investors, including foreign investors, to the different economic sectors with a view to boosting FDI, facilitating market access and creating a level playing field for all investors.</p> <p><b>Financial sector</b></p> <p>Action 14: Adoption of the necessary decrees to implement the creation of a deposit guarantee scheme for banks in line with international standards, as required in the new laws</p> <p><b>Support to the tourism sector.</b></p> <p>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.</p>

### **3.2.3 Progress on reform**

Box 1 provides a summary of the progress made by the Tunisian authorities in implementing MFA II conditionality. It is derived from the information in documents provided by DG ECFIN and insights from the scoping interviews (see Annex 8 for a more detailed overview on implementation status condition-by-condition).

Box 1. High-level overview of the implementation of MFA II conditionality by the Tunisian authorities

- All conditions but one were considered fulfilled within the agreed timeframe. A waiver was granted for condition 10, on VAT reform, linked to the third tranche. That condition required that two aspects be met: i) the suppression of the VAT middle rate; and ii) an additional substantial reduction of the number of exemptions to VAT. Part i) was not met: the middle rate was not eliminated. Progress was made, however, with the middle rate applied to a lower number of goods and services. The Commission was mindful of the political and social difficulties associated with increasing<sup>110</sup> the VAT rate for the remaining sensitive products (e.g. fuel, electricity). The IMF adopted the same flexibility once it was clear the condition could not be met.
- The main reason behind the delayed disbursement of the second tranche was the delay in fulfilling condition 2, on the adoption of a new law on the CdC. Here, the Commission took a firm stance and the law was eventually adopted on 16 April 2019.

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<sup>110</sup> The MFA condition did not specify the rate that should be applied (18% or 6%) to replace the middle rate, but the IMF (see IMF Country Report No. 15/285) initially prescribed that the rate of 18% should apply to all goods and services previously taxed at 12%.

### **3.3 Jordan**

#### **3.3.1 MFA design: underlying theory of change**

The second MFA operation to Jordan (MFA II) was conceptualised shortly after the implementation of MFA I, which was fully disbursed over the course of 2015. MFA II was slightly larger than MFA I, with a total amount of EUR 200 million, envisaged to be disbursed in two equal instalments.

MFA II was implemented as part of the financial commitments made by international donors to countries affected by the Syrian refugee crisis. During the 'Supporting Syria and the Region' conference, held in London on 4 February 2016, the international community pledged financial assistance of around USD 10 billion, including EUR 2.9 billion from the EU.

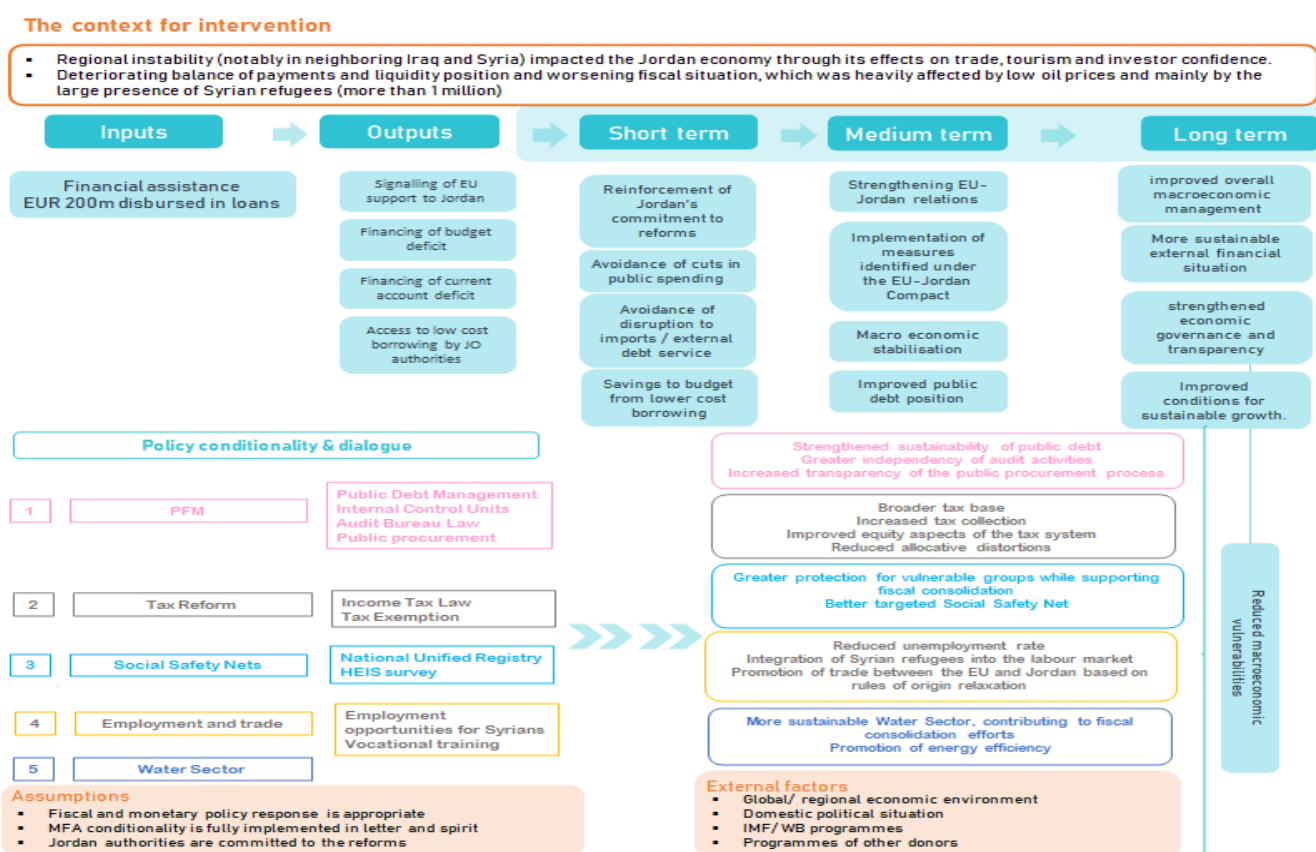
The overarching objectives of the programme were to alleviate Jordan's large external financing needs, which remained sizable even after the effects of MFA I, to support the ambitious reform programme initiated under MFA I, and to help the country to address the refugee crisis.

In total, 11 specific conditions were attached to five reform areas: (i) PFM; (ii) taxation; (iii) social safety net; (iv) employment and trade; and (v) water sector. Disbursement of the second tranche of funding was made conditional on satisfactory progress on those reforms, as well as a successful review of the 2016 IMF Extended Fund Facility (EFF) programme.

Figure 5 and Table 6 show that PFM was at the centre of the operation, with four conditions to maintain the sustainability of public debt and ensure greater transparency in public procurement sector and independence of audit activities. Tax and water sector reforms aimed to improve fiscal consolidation, reducing fiscal losses and increasing revenue. Other areas for reform had more social objectives, with the aim of reducing unemployment for both Jordanians and Syrians through the improvement of skills through vocational training and job creation (including issuing work permits for refugees in exchange for an easing of trade rules of origin). A number of these conditions further advanced those prescribed under MFA I.

The theory of change (Figure 5) illustrates how MFA II was expected to contribute to these objectives. It also illustrates the role of policy conditionality and dialogue in reducing macroeconomic vulnerabilities. The theory of change does not detail the expected outputs, for practical reasons. Key underlying assumptions for the sequence of changes to materialise are clearly laid out, along with other factors that might influence the direction and scale of effects.

Figure 5. Theory of change for MFA II to Jordan, 2016-2019



### 3.3.2 Implementation timetable

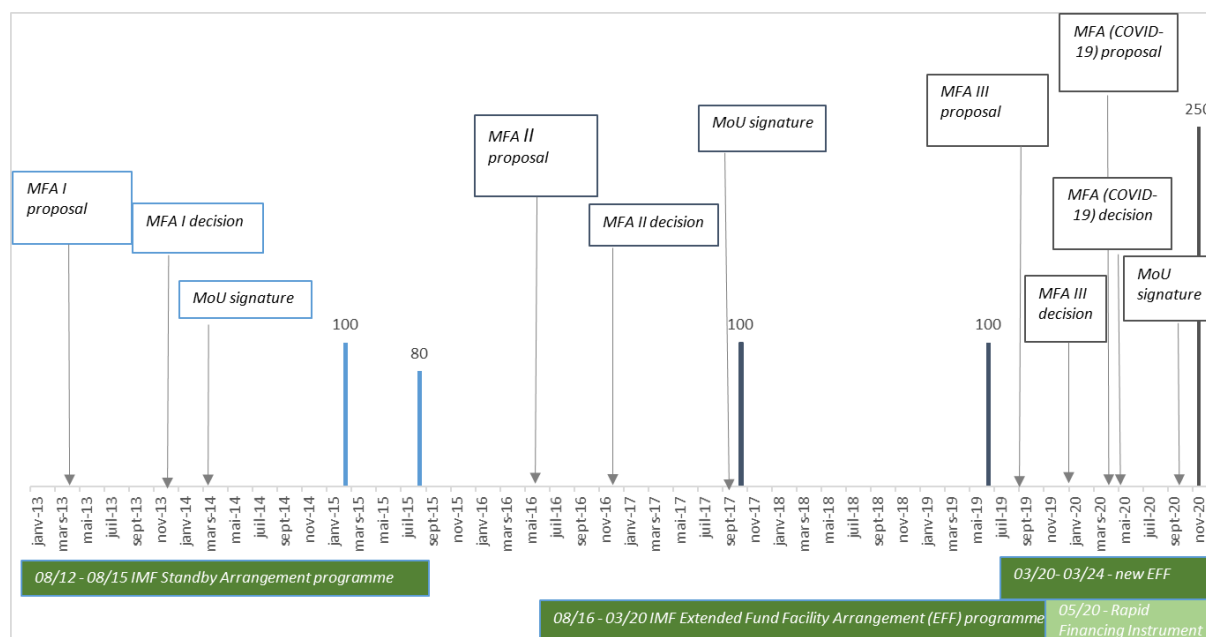
On 3 March 2016, the Jordanian authorities formally requested a new MFA from the EU through a letter from the Jordanian Ministry of Planning and International Cooperation to the EU Commissioner for Economic and Financial Affairs, Taxation and Customs. In accordance with the pledge made by the Commission at the 'Supporting Syria and the Region' conference in February 2016, the Commission proposed a second MFA operation (MFA II) in the amount of EUR 200 million in loans to Jordan on 29 June 2016, lower than the requested amount of EUR 350 million.

MFA II was approved by the European Parliament and the Council of Ministers in December 2016, five months after the submission of the European Commission proposal. The process of legislative approval took longer than expected, partly due to prolonged negotiations (on the Audit Bureau and income tax laws, as well as public procurement reform)<sup>111</sup>. The MoU and the Loan agreement were subsequently signed in September 2017 by the Jordanian authorities and entered into force.

The operation was disbursed in full by 2019. The first instalment of EUR 100 million was disbursed in October 2017, following the MoU coming into force in September 2017. The second instalment of EUR 100 million was disbursed in June 2019, following satisfactory compliance with MFA II conditions, and subject to the IMF EFF programme being on track. Slow progress in some areas of reform (see Section 3.3.3) put the programme slightly off track and jeopardised any earlier disbursement.

<sup>111</sup> European Commission (2017). Memorandum of Understanding between the European Union as lender and the Hashemite Kingdom of Jordan as borrower. Available at: [https://ec.europa.eu/info/sites/info/files/mou\\_signed\\_MFA\\_II\\_jordan.pdf](https://ec.europa.eu/info/sites/info/files/mou_signed_MFA_II_jordan.pdf)

Table 5. Overview of MFA and IMF support to Jordan, 2010-2020



Source: ICF based on DG ECFIN and IMF websites.

The decision to grant a subsequent MFA (MFA III) was taken in January 2020<sup>112</sup>, shortly before the outbreak of the COVID-19 pandemic: the size of the operation was set at EUR 500 million. Later in 2020, when the COVID-19 pandemic hit the already struggling Jordanian economy, the authorities requested further MFA on 21 April 2020. As part of the COVID-19-MFA package adopted on 25 May 2020<sup>113</sup>, the European Parliament and the Council agreed an MFA programme of EUR 200 million for Jordan (reinforcing the resources made available under MFA III). The first disbursement of EUR 250 million was made in November 2020.

<sup>112</sup> Decision (EU) 2020/33 of the European Parliament and of the Council of 15 January 2020 providing further macro-financial assistance to the Hashemite Kingdom of Jordan. Available at <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32020D0033&from=EN>

<sup>113</sup> Decision (EU) 2020/701.



Table 6. Overview of MFA II to the Hashemite Kingdom of Jordan

Rationale for the operation	MFA II characteristics	Main areas of reform
<p>To ease the Country's external financing constraints, alleviate its balance of payments and budgetary needs, and to help the authorities to deal with the current external and financial vulnerabilities aggravated by regional instability and the impact of the Syrian refugees' influx.</p>	<p>EUR 200 million (loan)</p> <p><u>Disbursement approval dates</u></p> <p>1<sup>st</sup> instalment of EUR 100 million in October 2017</p> <p>2<sup>nd</sup> instalment of EUR 100 million in June 2019</p> <p>* <i>Maturity of loan: 13-16 years (depending on the tranche)</i></p> <p>** <i>Interest rate: 0.5-0.75% (depending on the tranche)</i></p>	<p>The conditionality attached to the MFA II provided to Hashemite Kingdom of Jordan covered the following areas:</p> <p><u>Second instalment:</u></p> <p><b>PFM</b></p> <p>Condition 1: Ensure the sustainability of the public debt: publish an updated medium-term public debt management strategy covering both the central government and its agencies, develop capacities of the Public Debt Directorate at the Ministry of Finance, and develop the domestic market for public securities (notably the secondary market for bonds).</p> <p>Condition 2: Ensure independent pre-audit activities through the disengagement of the Audit Bureau.</p> <p>Condition 3: Submit revisions to the law on the Audit Bureau to parliament.</p> <p>Condition 4: Increase transparency in public procurement by establishing an independent appeal system.</p> <p><b>Tax reform</b></p> <p>Condition 5: Submit a new income tax law to the parliament.</p> <p>Condition 6: Submit a new framework entailing a gradual reduction of exemptions in the general sales tax (GST) and customs duties to the parliament.</p> <p><b>Social safety net</b></p> <p>Condition 7: Establish of an operational National Unified Registry (NUR).</p> <p>Condition 8: Launch a new Household Expenditure and Income Survey (HEIS) and collect representative data for Jordanians and other nationalities, including Syrians.</p> <p><b>Employment and trade</b></p> <p>Condition 9: Facilitate the access of Syrian refugees to formal employment opportunities in the 18</p>

<b>Rationale for the operation</b>	<b>MFA II characteristics</b>	<b>Main areas of reform</b>
		<p>Special Economic Zones (SEZ) that benefit from the agreement of 19 July 2016 between the EU and Jordan on rules of origin relaxation.</p> <p>Condition 10: (i) Extend Syrian refugees' access to vocational training centres, and (ii) launch a survey of the educational qualifications, professional profiles and technical skills of the Syrian refugees living in Jordan.</p> <p><b>Water sector reform</b></p> <p>Condition 11: (i) Adopt an 'Action Plan to Reduce Water Sector Losses', and (ii) complete the tendering process for the selection of the contractors for a project to reduce energy consumption in major pumping stations.</p>

### 3.3.3 Progress on reform

Table 7 summarises the progress made by the Jordanian authorities in implementing MFA conditionalities. It is based on documents provided by DG ECFIN. In the next phase of the evaluation, further evidence will be compiled from various sources to determine the relevance of the MFA conditions, progress made and the role of the MFA (see Annex 8 for a more detailed overview on implementation status, condition-by-condition).

Table 7. High-level overview of the implementation of MFA II conditionality by the Jordan authorities

Reform areas Sub-area (number of conditions)	Implementation status (at the time of disbursement/expiry of MFA II)
PFM (4) Public debt management (1) Internal control units (1) Audit Bureau law (1) Public procurement (1)	Condition #1 was considered met within the agreed timeframe. However, at the time of disbursement, the capacity-building plan was still underway to ensure continuous training of all Public Debt Department staff. Condition #2 was also considered fulfilled within the agreed timeframe.  Conditions #3 and #4 were considered broadly met. While condition #3 was considered fulfilled beyond the scope of the condition, the new Audit Bureau law could have been more ambitious. As for condition #4, further proposals for additional regulations were still expected for the proper functioning of the appeals system in public procurement.
Tax reform (2) Income tax law (1) Tax exemption (1)	Conditions #5 and #6 were considered fulfilled within the agreed timeframe. However, the outcomes were not as ambitious as initially expected. The threshold of the personal income tax was lowered to a higher level than expected and tax exemption reform achieved a lower revenue performance than originally planned.
Social safety net (2) National Unified Registry (1) HEIS (1)	Conditions #7 and #8 were considered fulfilled within the agreed timeframe. However, the last HEIS was published in 2018, with no more recent survey appearing to be published. In addition, official estimates on poverty indicators, which were expected to be published during 2019, are not yet publicly available.

Reform areas Sub-area (number of conditions)	Implementation status (at the time of disbursement/expiry of MFA II)
Employment and trade (2) Employment opportunities for Syrians (1) Vocational training (1)	Conditions #8 and #10 were considered fulfilled within the agreed timeframe. However, the ILO also noted that of the Syrian workers who held a work permit, only a minority held written contracts and the majority were not covered by social security. Health standards were not enforced in most of their workplaces.
Water sector (1)	Condition #11 was considered fulfilled within the agreed timeframe.

## 4 Methodology

### 4.1 Introduction

This section presents the methodological approach to the evaluation, which was carried out in line with the Better Regulation Guidelines<sup>114</sup>.

The first step was the development of an evaluation framework<sup>115</sup> (see Annex 13) in response to the list of evaluation questions and additional components included in the Terms of Reference (ToR) (see Box 2). It underpinned the methodological approach for this evaluation and was complemented by the design of a step-by-step methodology (see Figure 6).

Box 2. List of evaluation questions and additional components

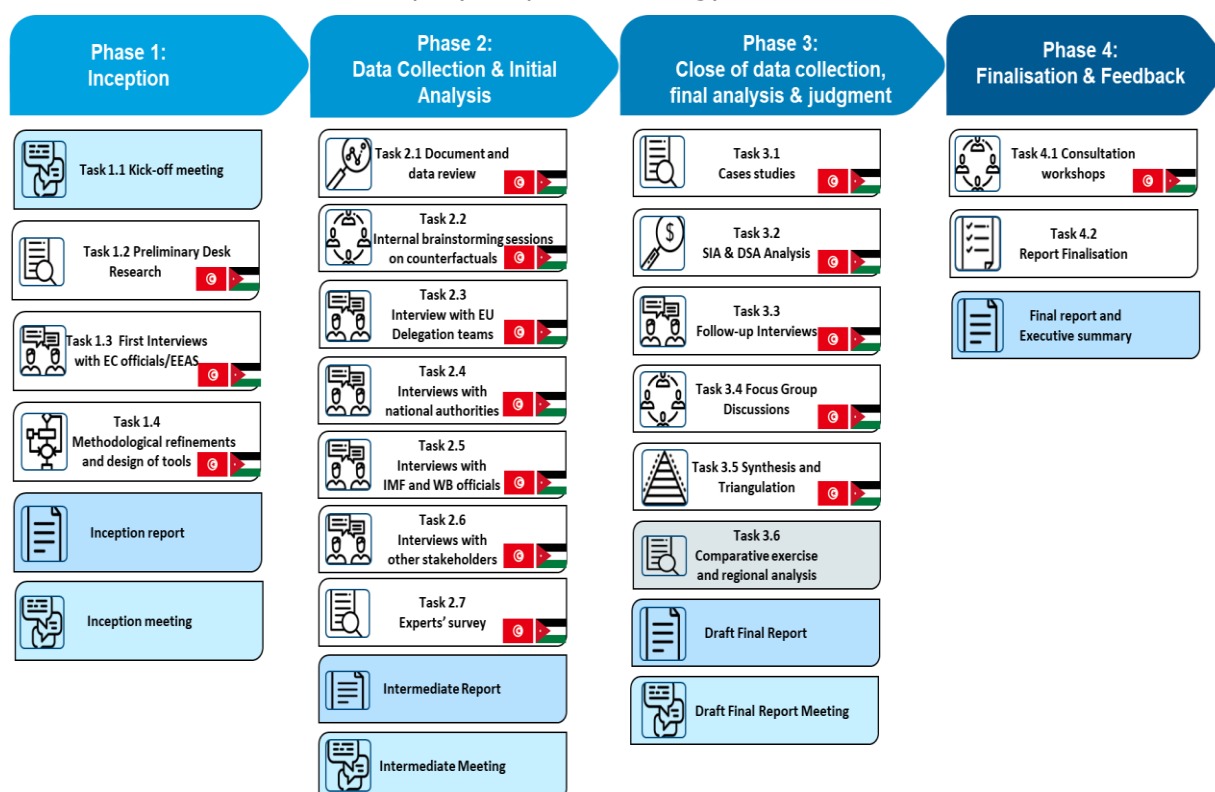
- The ToR translate the above elements into specific evaluation questions for each MFA operation:
- Relevance: To what extent was the MFA operation design (including adequateness of financing envelope, focus of conditionality) appropriate in relation to the outputs to be produced and objectives to be achieved?
- Effectiveness: To what extent have the objectives of the MFA operation been achieved?
- Efficiency: In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives?
- Efficiency: Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country?
- Efficiency: To what extent did the MFA operation design enable the intervention to be carried out efficiently?
- EU-added value: What is the additional value resulting from an EU intervention compared to what could reasonably have been expected from Member States

<sup>114</sup> European Commission (2015). Better Regulation Guidelines. Available at: [http://ec.europa.eu/smart-regulation/guidelines/toc\\_guide\\_en.htm](http://ec.europa.eu/smart-regulation/guidelines/toc_guide_en.htm)

<sup>115</sup> The development of the evaluation framework was also guided by the MFA intervention logic. Available at: [http://ec.europa.eu/smart-regulation/roadmaps/docs/plan\\_2016\\_202\\_evaluation\\_ukraine\\_en.pdf](http://ec.europa.eu/smart-regulation/roadmaps/docs/plan_2016_202_evaluation_ukraine_en.pdf), p. 3.

- acting at a national level?
- EU-added value: To what extent did the MFA operation add value compared to other interventions by other international development partners, and notably the IMF?
  - Coherence: To what extent was the MFA operation in line with key principles, objectives and measures taken in other EU external actions foreseen in the context of the European Neighbourhood policy towards Tunisia and Jordan, respectively?
  - The ToR stipulate two additional components that will be addressed:
  - Additional Component 1: An analysis of social impact of the MFA operation (more specifically in relation to the policy measures included in the MoU relating to the social sector and by including social variables in the analysis), including in combination with IMF programme measures.
  - Additional Component 2: An analysis of the impact of the MFA operation (also in combination with the IMF programme) on the debt sustainability of the country, possibly by drawing on the IMF's DSAs.
  - A cross-country assessment is expected, with the aim of drawing out noteworthy comparisons between the two operations at regional level. This analysis will be based on the results of the evaluation of each individual evaluation, highlighting reciprocal strengths and weaknesses.
  - The report will also assess the impact of MFA on the Southern Neighbourhood.

Figure 6. Overview of the step-by-step methodology



## 4.2 Evaluation design

The evaluation was designed to respond to a specific set of (quantitative and qualitative) evaluation criteria and questions, as set out in the ToR. An evaluation matrix guided the

choice and design of specific research methods, as well as providing a framework for subsequent data analysis and interpretation. More specifically, the matrix set out:

- Research questions addressed by the evaluation;
- Evidence required to answer each evaluation question;
- Data sources and research methods used to compile the required evidence;
- Judgement criteria on which the evaluative conclusions were to be based.

The evaluation matrix is presented in Annex 13 and reflects the following key elements of the overall approach:

- A theory-based approach, which involved making explicit the underlying theory of change for the MFA operation in Tunisia and Jordan, and then testing that theory to draw conclusions about whether and how the MFA contributed to observed results. The theory of change was developed based on desk research and validated through key informant interviews.
- The use of mixed methods (a combination of both quantitative and qualitative research methods) to facilitate a deeper understanding of the evaluation issues and to build a rich and comprehensive evidence base for the evaluation.
- Triangulation, which allowed for multiple lines of inquiry and evidence to be used to answer each evaluation question.

### 4.3 Methods and data sources

Table 8 provides a high-level overview of the data collection methods and analytical techniques used to address each evaluation criterion. A description of how each of these methods was applied as part of this evaluation is provided in the sub-sections that follow.

*Table 8. Overview of the methods and techniques used for the evaluation*

	Relevance	Effectiveness	Efficiency	Coherence	EU added value
Document and data review	•••	••	•••	•••	•••
Macroeconomic data analysis	•••	•••	•••		
Internal brainstorming session on counterfactual scenarios	•	•••			•
Key informant/stakeholder interviews	•••	•••	•••	•••	•••
Expert survey	••	••			•
Case studies	••	••	••	•	••
Social Impact Analysis (SIA)		•••			
Debt Sustainability Analysis (DSA)		•••			
Online focus	••	••			••

	Relevance	Effectiveness	Efficiency	Coherence	EU added value
group discussion					
Comparative assessment and regional analysis	•	•	•		••

- very important method for addressing the evaluation criterion
- important method for addressing the evaluation criterion
- complementary method

#### 4.3.1 Document and data review

The documents reviewed included publicly available information, as well as official documentation provided by the Commission. These are presented in Table 9.

Table 9. Document review – main sources

Type	Description
Commission documentation relating to the MFA operations in Tunisia and Jordan	<ul style="list-style-type: none"> <li>• Background notes/documents</li> <li>• Letters of request</li> <li>• Operational assessments</li> <li>• Preparatory documents</li> <li>• Ex-ante evaluation statements</li> <li>• Commission proposals (relating to the MFA II operations)</li> <li>• Commission decisions (relating to the MFA II operations)</li> <li>• Signed MoUs</li> <li>• Disbursement notes</li> <li>• Compliance statements</li> <li>• Mission reports</li> </ul>
Documentation related to (other) EU policies and instruments in the Southern Neighbourhood, Tunisia and Jordan	<ul style="list-style-type: none"> <li>• Annual report on the implementation of the EU's external action instruments</li> <li>• Budget support trends and results reports</li> <li>• EU documentation on the related budget support programmes</li> <li>• Joint communications, strategic priorities</li> </ul>
IMF reports and data	<ul style="list-style-type: none"> <li>• Letters of Intent submitted by authorities to the IMF</li> <li>• Requests for an extended arrangement under the EFF</li> <li>• IMF country reports</li> <li>• IMF reviews</li> <li>• Programme notes</li> <li>• Relevant IMF research publications</li> <li>• Relevant IMF-led evaluations (e.g. fiscal transparency evaluations)</li> <li>• Technical assistance reports/public investment management assessments</li> </ul>
Other	<ul style="list-style-type: none"> <li>• World Bank documents on their policy loans</li> <li>• Data and reports prepared by other international</li> </ul>

Type	Description
	<p>financial institutions (IFIs) (e.g. WB, European Bank for Reconstruction and Development (EBRD)) and key bilateral donors</p> <ul style="list-style-type: none"> <li>• Organisation for Economic Co-operation and Development (OECD) data/research publications</li> <li>• Policy documentation from Tunisian and Jordan national authorities (e.g. strategy papers, action plans, orientation notes)</li> <li>• Reports from civil society or other donors on particular reforms in Tunisia and Jordan</li> <li>• Other reports/needs assessments (2015 public expenditure and financial accountability (PEFA) report for Tunisia 2011-2013; 2016 PEFA report for Jordan 2013-2015)</li> <li>• Various indexes (e.g. the Open Budget Index, WB Doing Business Ranking, World Economic Forum Competitiveness Index)</li> <li>• Academic and grey material, including country reports, press articles etc.</li> <li>• Reports produced by major credit rating agencies</li> <li>• Macroeconomic statistics (real economy, Balance of Payments (BoP), government finances, monetary statistics, labour market)</li> </ul>

#### 4.3.2 Macroeconomic data analysis

Key macroeconomic data and statistics from various sources were compiled and analysed. These are described in Table 10 below.

Table 10. Key macroeconomic indicators and data sources

Component	Data type	Description	Key data source(s)
<i>The real economy</i>	National accounts	Indicators of macroeconomic performance	Ministries of Finance, CBJ, Central Bank of Tunisia (CBT), national statistical institutes, IMF, WB
<i>Balance of payments</i>	Balance of payments statistics	Indicators of external sustainability and trade conditions	IMF, WB
<i>Government</i>	Government finance statistics	Indicators of the government's fiscal sustainability (expenditure, budget balance, debt, tax revenue, etc.)	Ministries of Finance, IMF, WB
<i>Financial System</i>	Monetary statistics	Banking sector, financing condition, interest rates, foreign exchange data, etc.	Ministries of Finance, CBJ, CBT, IMF



Component	Data type	Description	Key data source(s)
<i>Labour Market</i>	Other economic statistics	Indicators of socioeconomic performance	Ministries of Finance, IMF, WB

### 4.3.3 Internal brainstorming session on counterfactual scenarios

Separate (in-house) brainstorming sessions among members of the ICF evaluation team and the study experts were organised for Tunisia and Jordan. These sessions were specifically aimed at identifying, developing and testing potential counterfactual scenarios:

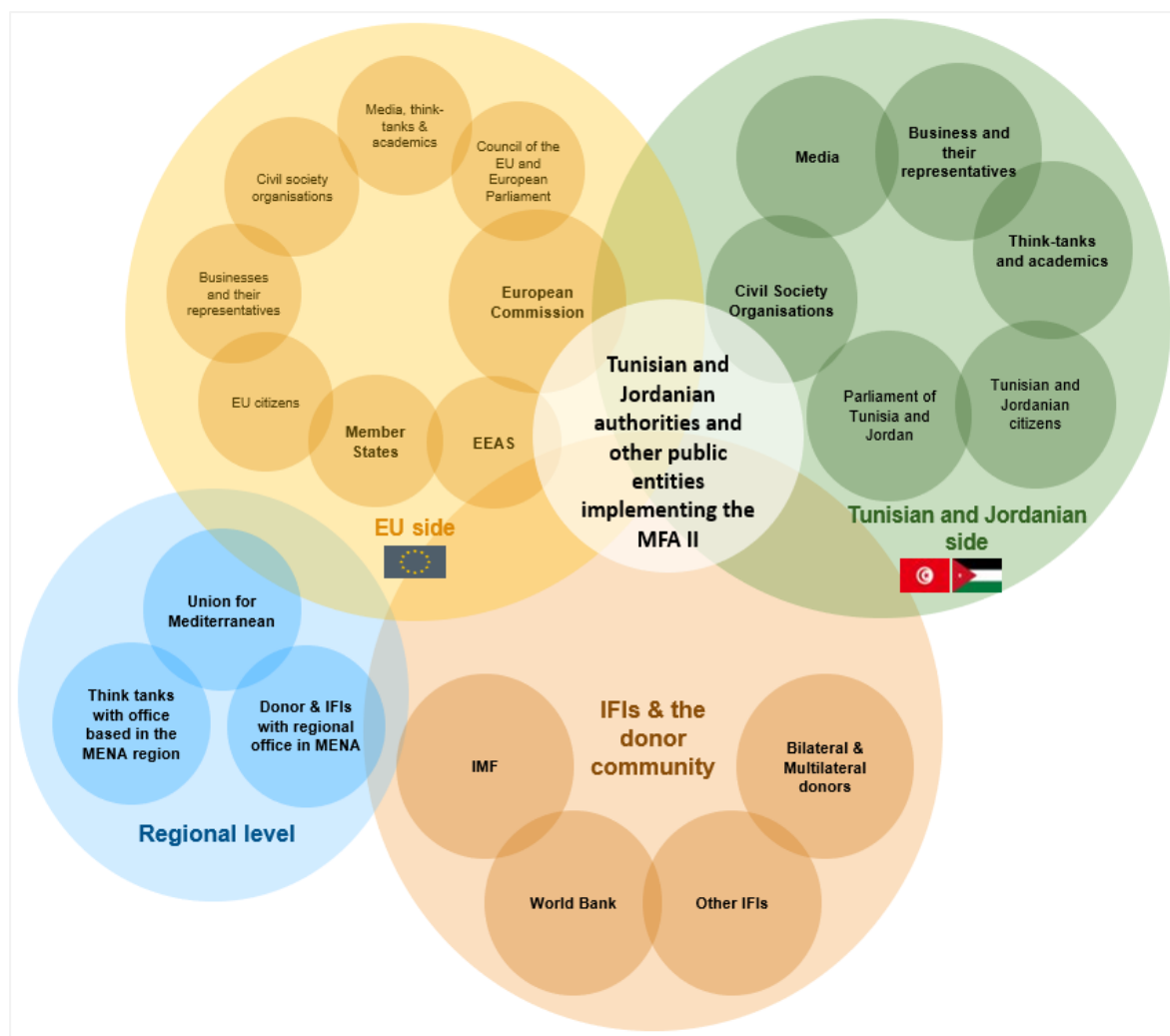
- Hypothetical counterfactual scenarios that would have been *least* likely had the MFA or the MFA/IMF EFF not been made available to the Tunisian and Jordanian authorities, along with detailed reasons for rejecting those scenarios;
- The most plausible counterfactual scenarios that would have been most likely had the MFA or the MFA/IMF EFF not been made available to the Tunisian and Jordanian authorities.

In each of the above cases, gaps in information, caveats, further inquiry lines, and the most relevant sources of information (including quality and reliability) were discussed. This initial stocktaking exercise provided a basis for further discussions with key stakeholders (e.g. the IMF, WB, local authorities).

### 4.3.4 Interviews with key informants

A total of **50** interviews were carried out with key stakeholders as part of the evaluation, including various parties from: (1) the EU; (2) beneficiary countries; (3) donor community; and (4) other relevant stakeholders at regional level (Figure 7).

Figure 7. Most of the following stakeholder groups were consulted as part of the research



More specifically, the Study team interviewed European Commission officials and representatives of the EU and individual Member States’ political landscape, respectively, Tunisian and Jordanian national authorities, and other stakeholders involved in the implementation and/or monitoring of MFA conditionalities. IFIs, the wider donor community, civil society organisations (CSOs) and businesses representatives were also consulted. Owing to the ongoing COVID-19 pandemic and associated travel restrictions, interviews were generally conducted over the phone or via videoconferencing.

Table 11 lists the stakeholders consulted during the evaluation (see Annex 4 for further details).

Table 11. Profile of interviewees

Profile	Number of key informants
<b>Tunisia</b>	
<b>EU: Commission officials at headquarters and at the EU Delegation in Tunis/ European External Action Service (EEAS)/ Member State representatives</b>	<b>8</b>
DG ECFIN	2

Profile	Number of key informants
DG NEAR/ former DG ECFIN	1
DG NEAR/EEAS/EUD OPS	1
EEAS	1
EEAS/ EU Delegation to Tunisia	3
<b>Tunisia: national authorities</b>	<b>7</b>
Ministry of Development, Investment and International Cooperation (MDICI)	3
Central Bank of Tunisia	1
CdC – Court of Auditors	1
Ministry of Employment and Vocational Training; ANETI	1
Ministry of Social Affairs; CRES	1
<b>International donor community</b>	<b>7</b>
IMF	3
WB	1
US Agency for International Development (USAID)	1
German Kreditanstalt für Wiederaufbau (KfW)	1
Italian Agency for Development Cooperation (AICS)	1
<b>Jordan</b>	
<b>EU: Commission officials at headquarters and at the EU Delegations in Amman/EEAS/ Member State representatives</b>	<b>7</b>
DG ECFIN	2
EEAS	2
EU Delegation to Jordan	3
<b>Jordan: national authorities</b>	<b>11</b>
Ministry of Planning and International Cooperation	1
Audit Bureau	1
Ministry of Water and Irrigation	1
Ministry of Public Works and Housing	1
Ministry of Social Development	1

Profile	Number of key informants
Ministry of Finance	3
Ministry of Vocational Training	1
Water Authority of Jordan	1
CNJ	1
<b>International donor community</b>	<b>4</b>
IMF	1
WB	1
Deutsche Gesellschaft für Internationale Zusammenarbeit GmbH (GIZ)	1
Agence Française de Développement (AFD)	1
<b>Additional stakeholders consulted for regional perspectives/other insights</b>	<b>6</b>
DG ECFIN	2
EBRD	1
Permanent Representation of Sweden to the EU	1
Association of the Mediterranean Chambers of Commerce (ASCAME)	1
BusinessMed	1
<b>Total</b>	<b>48</b>

The focus of the interviews varied, depending on the stakeholder type. Interviewees received a copy of semi-structured questionnaires beforehand that were used to steer the interviews. 4.3.5 below provides a snapshot of the interview focus by stakeholder type (see Annex 5 for key takeaways by stakeholder type).

#### 4.3.5 Focus of interviews, by stakeholder type

##### **EU**

- Interviews with Commission officials covered all key themes of the evaluation. The purpose of these discussions was to deepen the Study team's understanding of: the big picture (where the MFA operations fit within the EU's overall assistance package to Tunisia and Jordan); the process of designing the operations, including coordination issues with other Commission instruments; the process of selecting the conditions and negotiating them with the authorities; the overall assessment of the economic impact of the MFA; and views on progress made in various reform areas and the role of the MFA operations in achieving that progress.
- Interviews with the EU Delegation and EEAS officials also covered: the extent of coordination between the MFA operations and other EU instruments; assessment of progress in particular reform areas and the contribution of the MFA operations to the reform process in each country; and the extent of reform capacity and

ownership on the part of local authorities.

### ***Tunisia/Jordan side***

- The same aspects described above were discussed with officials at selected local authorities, namely: the coordinating Ministries (MDICI and MOPIC), Ministries of Finance, and the CBJ and CBT. Insights were gathered in respect of: the design and negotiation process of the MFA operations; the impact of the MFA operations on each country's macroeconomic situation; the impact of the MFA operations on reform areas; and the wider visibility of the MFA operations compared to other budget support programmes and other forms of aid from the donor community. The financial and non-financial added value of the MFA operations and implementation aspects (including reform capacity and ownership) were also discussed.

### ***IMF and the donor community***

- With the IMF, the focus was on aspects related to the design and negotiation of the support package (overview of the factors leading to the request for IMF assistance, liaison and coordination with the European Commission, notably the selection of conditionalities, the likely scenario(s) in the absence of the MFA operations); implementation aspects (e.g. timeliness of the MFA disbursement, views on non-disbursement); the wider impact of MFA/IMF assistance on each country's macroeconomic conditions and structural reform process.
- With other donors, the interviews focused on the characteristics of their own assistance package and potential complementarities/synergies and/or inconsistencies with MFA II.

### ***Regional/other interviews***

- Several stakeholders with specific local and regional knowledge were probed on the extent of similarities, differences and patterns across the two MFA interventions. In addition, the extent to which contextual differences may have influenced the interventions' outcomes and impacts was explored.
- Some of the key themes discussed during these interviews were:
  - the extent to which the operations were easier/smoothen to implement in one or other country;
  - the extent of differences in EU leverage for promoting reform in either country;
  - the extent to which the impacts of the MFA operations were purely national or regional, or both;
  - the nature/scale of effects expected/observed beyond borders.

#### **4.3.6 Expert survey**

The expert survey sought to elicit additional views in relation to the macroeconomic impact of MFA II on the Tunisian and Jordanian economies (e.g. GDP growth, balance of payments, fiscal balances), respectively; the impact and contribution of the operations to the structural reform process in each country; and various design and implementation aspects (e.g. the size of the operations in relation to each country's financing needs, timing of the disbursements, design of the conditionalities, the extent of coordination with the IMF/WB and national authorities). Participants were also asked to comment on possible scenarios (i.e. alternative avenues that would have been considered by the authorities) had either MFA II or the entire joint MFA/IMF assistance package not been

made available. The survey also covered aspects pertaining to the role of the MFA in promoting structural reform and the associated economic and social impacts.

Recruitment of the expert panel was carried out with the support of the local research team. Participants were recruited on the basis of their familiarity with MFA II and their knowledge of each country's general context and macroeconomic situation. A total of **37** and **26** respondents participated in the Tunisian and Jordanian survey, respectively. Table 12 shows the representatives from specific groups/institutions who constituted the expert panel in each country.

*Table 12. Expert panel respondents*

<b>Type of organisation</b>	<b>Number of responses - Tunisia</b>	<b>Number of responses - Jordan</b>
Academics	25	18
Businesses and their representatives	1	2
Think tanks/research consultancies	5	5
Retired from public administration	2	0
International organisations	4	0
Other	0	1
<b>Total</b>	<b>37</b>	<b>26</b>

#### **4.3.7 Focus group**

An online focus group discussion was organised between the Study team, the local expert team, and several representatives from the business community, CSOs, media and academics in each country. The discussion comprised a series of short presentations and live polls intended to facilitate open discussion among participants.

	<b>Tunisia</b>	<b>Jordan</b>
Date	22 July 2021	11 August 2021
	Two separate sessions: Civil society + journalists Private sector Small groups (6 participants in total)	One session: Academics Civil society Small group (5 participants in total)
Format	Discussions held in French	Discussions held in English

The main topics covered were:

- The added value of MFA II as part of the broader package of EU assistance to each country, in terms of: (i) relevance; (ii) visibility/awareness; and (iii) design.
- The EU and MFA II operations' contribution to each country's overall reform efforts; and
- In-depth discussions of specific reform areas targeted by MFA II (selected depending on the participants' experience).

The summary results of the online focus group are presented in Annex 7.

#### **4.3.8 Case studies on external audit**

Two in-depth case studies on MFA-promoted reforms were developed (one for each country) on reforms in the area of external audit, which formed part of both operations.

The case studies addressed the following:

- Rationale behind the selection of specific MFA conditions in the above areas, as well as the relevance and added value of MFA conditionality;
- Significance of MFA conditionality in the context of the overall need for reform in a particular thematic area/sector;
- How the MFA conditions were implemented and whether the authorities encountered any obstacles in implementing these conditions (e.g. lack of capacity, political or public resistance to change, etc.);
- Role and contribution of the MFA in promoting reform, including identification of key causal links;
- Short-term, mid-term and long-term benefits of the MFA conditions.

The case studies were primarily based on desk research and stakeholder interviews, and took into account inputs from local economic experts. Based on the case studies and the analysis of the reform process in general, an attempt was made to extract some lessons learned from the design and implementation of the reforms in both countries.

#### **4.3.9 Social Impact Analysis (SIA)**

The overarching aim of the SIA was to use evidence from social indicators and primary data to assess the impact of the MFA II operations on the social situation in each of Tunisia and Jordan.

Direct effects were analysed in the first part, which sought to understand – through a 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 was used in conjunction with available empirical data to form an assessment of progress by the Tunisian/Jordanian authorities.

In the second part, trends in variables relating to the macroeconomic situation (i.e. indirect effects) were also analysed. The aim was to assess developments in socioeconomic variables, such as wage growth and unemployment, prior to, and (where possible) during/after) the MFA period. This step also discussed developments in nominal variables that impact the affordability of goods and services, as well as developments relating to poverty and living standards.

Finally, a counterfactual analysis was undertaken, which aimed to establish the likely social situation in Tunisia/Jordan in the absence of the first tranche of the MFA (Alternative 1), in the absence of the second and third MFA tranches (Alternative 2), and in the absence of both MFA and IMF funding (Alternative 3).

The full findings of the SIA are presented in Annex 12.

#### **4.3.10 Debt Sustainability Analysis (DSA)**

The aim of the DSA was to evaluate the impact of MFA II operations on the sustainability of Tunisia's and Jordan's public debt. The analysis was conducted within a counterfactual framework, where the baseline (what actually happened) is compared against what would likely have occurred in alternative scenarios. More specifically, the DSA considered the following key scenarios:

- First MFA tranche not disbursed/received by Tunisia and Jordan (Alternative 1);
- Second and third tranches not received by Tunisia and the second tranche by Jordan (Alternative 2); and
- Funding from both MFA II and the IMF EFF not disbursed/received by Tunisia and Jordan (Alternative 3).

For each scenario, the most likely counterfactual was determined based on insights obtained from desk research, stakeholder consultation and local economic experts. The implications for key debt sustainability indicators were then assessed in each of these scenarios compared to the baseline.

The full DSA is presented in Annex 11.

#### **4.3.11 Comparative assessment**

The aim of the comparative assessment was to flesh out key similarities, differences and patterns across the two MFA interventions. More specifically, the assessment allowed for the respective strengths and weaknesses of each MFA operation to be thoroughly investigated in light of the specific national context.

The analysis focused on the following dimensions:

- Context: capturing all key country-specific contextual factors to which MFA operations need to be tailored;
- Design and implementation: summarising all of the key aspects that characterised the MFA operation;
- Outcome and impacts: assessing the progresses made and observed outcome and impacts. Where appropriate, development in the two countries is benchmarked with developments at regional level using comparable, internationally sourced indicators;
- Role of the MFA operation: assessing the extent to which the operation contributed to the observed changes/distinguished its role from other influencing factors.

##### **4.3.11.1 Regional analysis**

The main aim of the regional analysis was to qualitatively assess the regional impact of MFA in the Southern Neighbourhood. It was based on:

- Literature review on growth spillovers and on regional impacts of financial assistance programmes;
- Descriptive analysis of macroeconomic statistics, examining the economic linkages between the Jordanian and Tunisian economies with the wider MENA regional economy; and
- Stakeholder interviews discussing the potential role of the MFAs beyond borders (bearing in mind the explicit and also implicit objectives of the operations).



#### **4.4 Caveats and limitations**

The caveats and limitations associated with each particular data collection method are presented in Table 13.

Table 13. Limitations and caveats in respect of the data collection and analysis

Method	Caveats and limitations
Macroeconomic data analysis	<p>There was no specific issue with the reliability of macroeconomic data.</p> <p>The main data limitations relate to SIA more specifically (see below).</p>
Interviews with key informants	<p>Visits to Tunisia/Jordan were impossible in the context of the COVID-19 pandemic, and were instead replaced with conference calls with all stakeholders consulted. For some national authorities, especially in Jordan, it was more challenging to secure the participation of stakeholders in this format and required close follow-up.</p> <p>Topics guides were tailored to take into account several factors, notably: degree of involvement with the operation; degree of familiarity with key aspects of the design; negotiations and implementation of MFA II; period during which the interviewee held the Tunisian/Jordanian file and time elapsed since then; risk of confusion about the ongoing MFA operation (or MFA I, or other EU programmes). MoUs and key facts about MFA II were included to limit possible confusion.</p> <p>In the case of Tunisia, interviews were held in French or English. In the case of Jordan, interviews were held in English. In Jordan, in a few cases, the language somewhat limited the depth of the exchanges with national authorities. Complementary interviews and cross-checking of facts were used to fill any related gaps.</p>
Expert survey	<p>One challenge was to avoid insufficient familiarity among participants with specific aspects of MFA II. Liaising with local experts, substantial efforts were made to select a sample of relevant experts with expertise in macroeconomics – with no particular emphasis on increasing the size of the sample.</p> <p>In the context of the COVID-19 outbreak and survey fatigue, another challenge was to achieve a satisfactory response rate. In total, after granting some flexibility with the deadline and close follow up, 37 and 19 complete answers were received for Tunisia and Jordan, respectively, displaying a relatively high level of consensus.</p> <p>Responses from survey experts sometimes differed from the Study team’s assessment, e.g. on some specific issues (counterfactual questions) where insider knowledge is required. Triangulation of sources was used before any conclusions were drawn.</p>

Focus group	<p>The focus group was held online, which shortened its maximum duration compared to typical face-to-face focus groups. To make the best use of available time (two-hour session), a small set of registration questions was sent to the invitees beforehand to assess participants' specific areas of expertise and tailor the agenda accordingly.</p> <p>Often, progress in specific reform areas was discussed more generally, without progress necessarily attributed to the MFA condition.</p>
Case studies	<p>In Jordan there is a more limited understanding by stakeholders and the public about the important accountability role of the Audit Bureau. This notably means that the case study topic could not be covered in great detail during the focus group discussions. In Tunisia, the work of the CdC is more visible in the media and more topical, which allowed to develop a richer case study.</p>
DSA	<p>The nature of the MFA mechanism meant that it was not possible to trace how the MFA funding was used specifically, e.g. maintain public expenditure, meet the foreign debt repayment obligations. Instead, the design of DSA counterfactual scenarios relied on the insights collected through consultations and surveys.</p> <p>Given the uncertainty about possible outcomes, the counterfactual scenario assumptions include only the most tangible potential impacts that were assessed as relevant within the DSA framework. More uncertain implications of the counterfactual outcomes were not modelled, given the challenges of identifying what the impacts would have been and their magnitude.</p> <p>Data sources used in DSA analysis drew mainly on IMF data and data from the official releases by the Ministries of Finance, the CBT and CBJ. Some projections developed as part of the DSA related to the future (2020-onwards). These are based on the latest IMF projections available at the time of writing. These projections underpin both the baseline and the alternative scenarios, introducing a degree of uncertainty over the baseline values and the estimated impacts.</p> <p>Some simplifying assumptions were used in projecting the values of the key debt sustainability indicators. For example:</p> <p>The estimated differences in interest payments do not account for their compounding nature. Hence, the compounded interest is not added when calculating the values of the debt sustainability indicators;</p> <p>The modelling of debt stock and flows does not account for possible second-round and further effects of Increased risk premia in the absence of IMF/MFA financing. The calculations account only for the first round of increased risk premia resulting in higher cost of borrowing and increased debt flows and stocks. However, the second-round effect could also take place: as a result of the higher cost of borrowing and increasing gross-financing-needs-to-GDP ratio, investors could demand even higher premia (in accordance</p>

with the framework used for modelling). This effect, however, is assessed to be negligible, and hence was not reflected in the calculations;

A simplified debt maturity schedule was used in some instances as a means of approximating the annual costs of servicing debt.

Additionally, a degree of uncertainty arose 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 premia, or the parameters used to model the long-term impact of cuts to public investment on GDP levels. While these parameters were 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 (level of economic development, efficiency of public investment spending, etc.). Therefore, the results presented remain sensitive to the choice of these parameters.

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SIA

A key challenge of the SIA was to determine the extent to which the different conditionality-specified policies would have occurred across the counterfactual scenarios. Interviewees (and respondents to the expert survey) engaged only to a limited extent in the hypothetical exercise, where questions relating to social impact were asked. This made it challenging to quantify the extent to which the specified policies would have occurred without MFA operations/conditionalities and hence identify the contribution which the MFA had in nudging the Tunisian/Jordanian authorities.

Given this challenge, the SIA sought first to identify, as precisely as possible, the outcomes and social impacts of policies specified in MFA conditionalities, then attributed some share of these social impacts to the MFA in a descriptive/qualitative way.

The difficulty of estimating the social situation under the Alternative 3 scenario for Jordan (No IMF, no MFA) is especially challenging given the uncertainty surrounding this scenario. Diverse views were present from the stakeholder engagement. Many participants of the expert survey responded that the likelihood of sovereign default would have been high in the hypothetical case where IMF/MFA support is withheld. However, other key stakeholders from Jordanian authorities maintain that default, even without IMF/MFA support, would have been unlikely. This is compounded by additional uncertainty surrounding the impacts of unsustainable debt (different countries and events of debt crises have had diverse impacts in the past).

Data limitations also presented a major challenge in the SIA. One notable example was the lack of detail on social security beneficiaries by household income group. Without these details, it is not possible to estimate (directly) the targeting performance of the social safety net. The SIA thus endeavoured to make full use of available detail in the data (regional variations in poverty, social security coverage changes, etc.).

Another notable data limitation was the timeliness of evidence relating to poverty and living conditions. For both Tunisia and Jordan, data on poverty and living conditions extended only as far as 2018. This made it possible to assess the trajectory of these critical social indicators before the MFA, but prevented assessments of any changes in trajectory experienced during (or after) MFA operations. Efforts were made to consider a range of sources, including: national statistics offices, WB, United Nations Development Programme (UNDP) Multidimensional Poverty Index, and the Oxford Poverty and Human Development Initiative.

Comparative assessment

The comparative assessment essentially draws on the individual country evaluations. The caveats and limitations which apply to these individual country evaluations also apply to the comparative assessment. In the present case, differences in context did not prevent meaningful comparisons to be made. Discussions with the ISG, our regional experts and interviewees with experience across the region helped putting Tunisian and Jordanian results in perspective. The two evaluated operations shared many commonalities. The crucial one facilitating comparison seemed to be timing. Both operations were designed and implemented over the same period (2016-19), i.e. pre-COVID-19. Comparing an operation in one country/region pre-COVID with another operation in another country/region post-COVID would certainly have too little common ground to bring meaningful insights.

Overall, the comparative assessment made it easier to draw lessons e.g. on the design of conditions. Going forward, given the need to be sequential (i.e. the need to have the draft results for each country before turning to the comparative part) and the additional pieces of analysis included in a comparative assessment, sufficient time and resources need to be set aside for this kind of analysis to be produced, especially if keeping the same detailed level of analysis for each evaluated individual operation (e.g. analysis of reforms condition by condition and case studies).

Regional analysis

The analysis does not attempt to quantify the regional impact through econometric modelling, but rather it qualifies it based on a descriptive analysis of macroeconomic statistics, literature review and stakeholder interviews. This may be more pertinent given that significant spillovers take place through channels which are less measurable (confidence, political instability or security concerns).

## 5 Evaluation results: Tunisia

### 5.1 Relevance

**Question:** *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?*

To answer this question, three essential issues will be taken into consideration, namely (i) adequacy of the size of the financial assistance, (ii) appropriateness of the form of financial assistance, and (iii) design and focus of conditionality.

#### 5.1.1 Issue 1: Size of financial assistance

##### ***Size of financial assistance vs expectations***

Unlike MFA I, there was an early consensus between the European Commission and Tunisia on the size of the assistance. The national authorities requested EUR 500 million and this corresponded to the amount proposed by the Commission and approved by the co-legislators. The increase, compared to MFA I, was welcome by the Tunisian side.

The need to grant further MFA to Tunisia was officially discussed shortly after the adoption of the MFA decision, in the Joint Communication 'Strengthening EU support for Tunisia' of 29 September 2016<sup>116</sup>. This option was not pursued immediately, however, because the implementation of MFA II was not as smooth as initially anticipated.

##### ***Size of the financial assistance vs financing gap and burden-sharing considerations***

According to the 2016 ex-ante evaluation underpinning the second MFA to Tunisia<sup>117</sup>, the MFA was meant to be disbursed over 2016-2017 and would have represented between 6% and 15% of the overall financing gap, depending on the number of the tranches disbursed in each year. The EU share intended to complement the IMF programme, the WB commitments provided via Development Policy Loan (DPL) and financing from the AfDB. An issuance of US-backed international bonds was also factored in. Figure 8 illustrates the share of the second MFA in Tunisia's external financing gap, as per the 2016 ex-ante assessment (2016 and 2017).

The first tranche of EUR 200 million was eventually disbursed in 2017, later than initially planned, while the two other tranches, totalling EUR 300 million, came in 2019. The weight of MFA compared to total budgetary support actually received by Tunisia over 2017-2019 is presented in Figure 9.

Table 14. *Tunisia's gross external financing gap and potential financing sources, 2016-2017, USD million, as estimated ex-ante*

	2016 (USD million)	2017 (USD million)
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<sup>116</sup> European Commission (2016). Strengthening the EU support to Tunisia. Available at: [https://eeas.europa.eu/sites/eeas/files/communication\\_from\\_commission\\_to\\_inst\\_en\\_v6\\_p1\\_859678-2.pdf](https://eeas.europa.eu/sites/eeas/files/communication_from_commission_to_inst_en_v6_p1_859678-2.pdf)

<sup>117</sup> European Commission (2016). Ex-ante evaluation statement on EU macro-financial assistance to the Republic of Tunisia, SWD(2016) 30 final. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016SC0030&from=EN>

	<b>2016 (USD million)</b>	<b>2017 (USD million)</b>
Overall external financing gap	<b>-2,683</b>	<b>-2,431</b>
IMF disbursement	765	478
WB-DPL	500	500
Residual financing gap	<b>-1,418</b>	<b>-1,453</b>
EU MFA I	110	:
<b>EU MFA II</b>	<b>385</b>	<b>165</b>
EU budget support grants	100	100
US-backed international bonds	500	:
AfDB	250	:
<b>Total</b>	<b>1,345</b>	<b>265</b>
<b>MFA II as share of overall financing gap</b>	<b>14.3%</b>	<b>6.8%</b>

Source: European Commission (2016). Ex-ante evaluation statement on EU macro-financial assistance to the Republic of Tunisia, SWD(2016) 30 final.

### **Size of the financial assistance in absolute terms**

In absolute terms, and operations to Ukraine aside, the MFA II operation to Tunisia has been the largest MFA operation since 2000<sup>118</sup>. The increase in size (compared to MFA I) was welcome by the authorities and was seen as justified in light of the deteriorating situation.

- **Size of the financial assistance in relative terms**

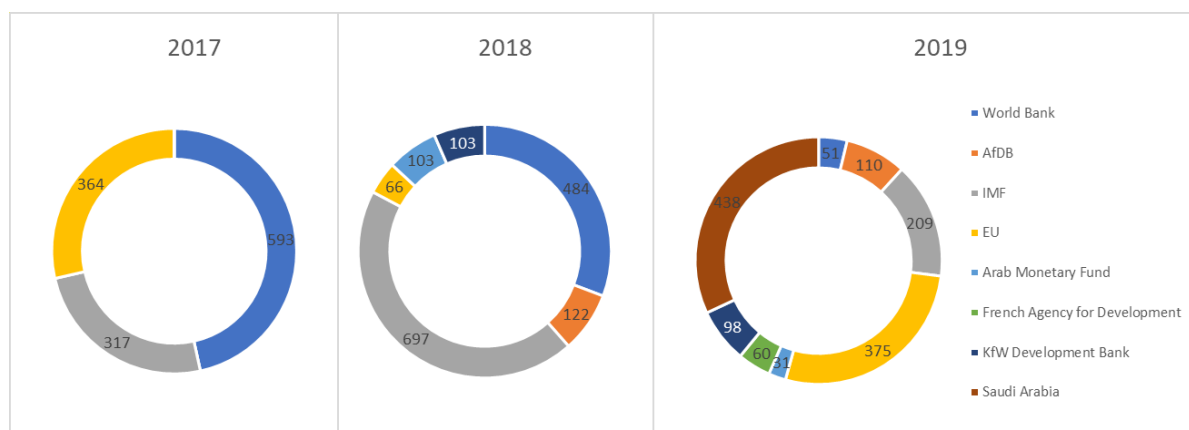
MFA disbursements were substantial compared to the size of the Tunisian economy, corresponding to circa 0.6% and 0.9% of GDP in 2017 and 2019, respectively. For illustrative purposes, public expenditure on one of the main social assistance

<sup>118</sup> EU (2019). Macro-Financial Assistance to non-EU partner countries. Available at: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries\\_en#documents](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en#documents)

programmes in Tunisia (*Programme National d'Aide aux Familles Nécessiteuses*, PNAFN) has represented ~0.5% of GDP in recent years.

Nor was it an insignificant amount in the context of the total assistance received in the form of budget support. Over 2017-2019, the EU support used for budgetary purposes (MFA and budget support programmes combined) represented 19% of all budgetary assistance received (vs 29% from the IMF and 27% for the WB). The relative importance of EU support, as well as that of other IFIs/donors, varied considerably from year to year.

*Figure 8. MFA and other budgetary support, in EUR million, 2017-2019*



*Source: Ministry of Finance data (Brochure Mensuelle de la Dette Publique), except for EU-related support, European Commission data (to avoid discrepancies in relation to exchange rate conversion).*

### **5.1.2 Issue 2: Form of financial assistance**

As per the 2013 Joint Declaration, the MFA should take the form of a loan, reflecting that it is an instrument which counters short-term and transitory difficulties. Under certain conditions, the recipient country can, however, be eligible for grants or a combination of loans and grants (see Box 2). In brief, eligibility for a full grant or a blended MFA will primarily depend on (i) the level of economic and social development of a recipient country, (ii) its debt sustainability and repayment capacity. The approach is quite flexible and hard indicators guide rather than constrain the final case-by-case decision.

#### **Box 2 Main factors influencing the form of MFA instrument**



### **Criterion 1: Level of economic and social development**

The level of economic and social development is typically assessed based on the Gross National Income (GNI) per capita, and poverty level indicators. GNI per capita is the essential indicator that determines the income category of the WB classification. For a country to be eligible for a grant, it needs to be in the lower-middle income category or below<sup>119</sup>. Indicators of poverty level (as per WB figures<sup>120</sup>) usually complement the income category data.

### **Criterion 2: Debt sustainability and repayment capacity**

Debt sustainability (public and external) and repayment capacity is an essential factor influencing decisions about the definite form of the MFA. Assessing debt sustainability and repayment capacity is a complex process and a number of indicators are used, including, most commonly: *external debt over GDP/GNI; external debt over exports; net present value of external debt over GNI; external debt service ratio (debt service over exports); public debt over GDP; public external debt over GNI; public debt service to tax revenue*. This list is not exhaustive and may be extended by various liquidity indicators or other types of information e.g. DSA by the IMF and WB<sup>121</sup>.

### **Additional criteria: treatment granted by other international donors and EU budgetary constraints**

Final steps to refine the analysis include:

- Cross-checking the results of the initial analysis carried out under criteria 1 and 2 against the status that *other international donors* grant to the country (whether the country in question is eligible for concessional finance, such as International Development Association (IDA) lending);
- Taking into account the *EU's budgetary constraints*, i.e. the limited availability of funds under the macroeconomic assistance line of the EU budget.

In the ex-ante evaluations from 2016, the Commission noted that Tunisia did not qualify for a grant component, based on these indicators.

To assess the level of economic and social development of both countries, the Commission used WB Atlas 2014 figures, the latest available at the time. These classified Tunisia as an upper-middle income country<sup>122</sup>, with per capita GNI at or slightly below the median level of the Southern Partners covered by the ENP<sup>123</sup>. Data on the

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<sup>119</sup> <https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups>

<sup>120</sup> World Bank (2015). Poverty data. Available at: [http://data.worldbank.org/topic/poverty#boxes-box-topic\\_cust\\_sec](http://data.worldbank.org/topic/poverty#boxes-box-topic_cust_sec)

<sup>121</sup> European Commission (2011). Criteria for determining the use of loans and grants in EU Macro-Financial Assistance. Available at: <http://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52011SC0874&from=EN>

<sup>122</sup> Shortly after, both countries fell into the lower-middle income categories: Tunisia from 2015 and Jordan temporarily in 2016.

<sup>123</sup> The Southern Partners under ENP had a median GNI per capita of USD 4,000 in 2016. These include (by descending order of GNI): Israel (USD 36,330); Lebanon (USD 7,230); Libya (USD 4,550); Algeria (USD 4,380); Jordan (USD 4,000); West Bank and Gaza (USD 3,900); Tunisia (USD 3,750); Egypt (USD 3,440) and Morocco (USD 2,880). No data are available for Syria (WB, GNI per capita, Atlas method. Available at: <https://data.worldbank.org/indicator/NY.GNP.PCAP.CD>).

percentage of the population living below the national poverty line are not available every year but the order of magnitude was 15.2% in Tunisia in 2015<sup>124</sup>.

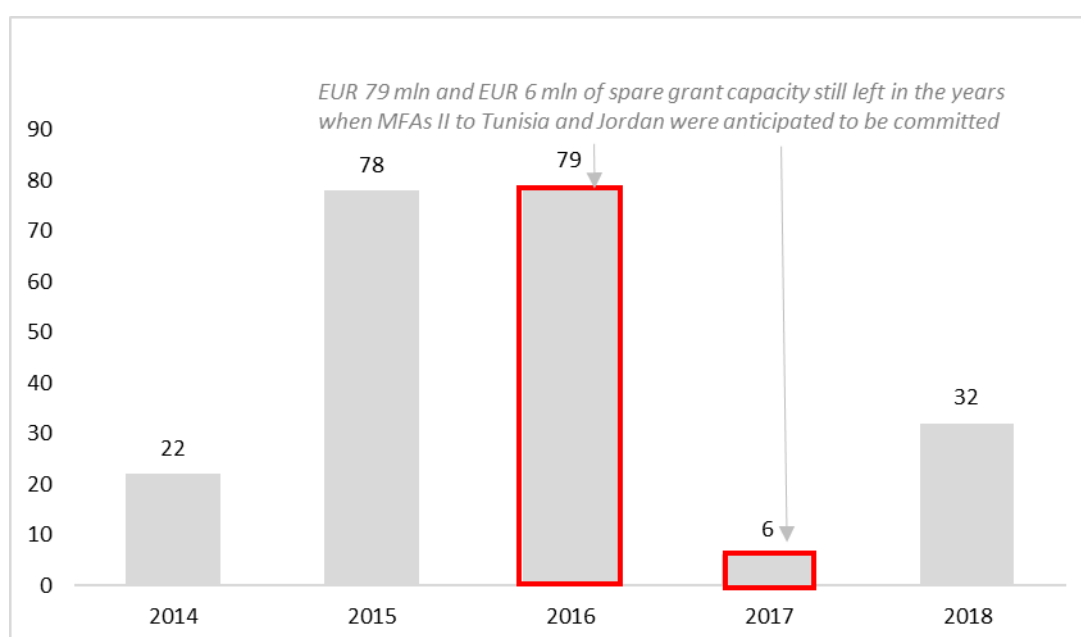
Tunisia was not eligible for concessional financing under the IDA or the IMF's Poverty Reduction and Growth Trust<sup>125</sup>.

Public debt was assessed as 'manageable' by the Commission in 2016. The analysis conducted as part of the ex-post evaluations of the first operations to Tunisia also confirmed that despite being disbursed in a loan format, in pure financial terms, the MFA made a positive contribution to the country's debt sustainability, given the concessional nature of the loans and the estimated cost of alternative financing.

The MFA operations to Tunisia were part of a wider package of EU support that also comprised grants. In the case of Tunisia, that assistance had reached the exceptional level of EUR 300 million in 2017 (in commitment)<sup>126</sup>.

Regarding EU budgetary constraints, Figure 10 gives an indication of the uncommitted budget allocations for MFA grants. When the commitment for the MFA II operation was intended to materialise, EUR 79 million (2016) and EUR 6 million (2017) remained uncommitted. In that context, there would have been some constraint to put aside a sizeable grant component.

*Figure 9. Uncommitted budget allocations for MFA grants in the EU budget, in EUR million*



Source: MFA annual reports. Available at: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en)

<sup>124</sup> World Bank, poverty level data. Available at: <https://data.worldbank.org/indicator/SI.POV.NAHC?end=2015&start=2009>

<sup>125</sup> European Commission (2016). Ex-ante evaluation statement on EU macro-financial assistance to the Republic of Tunisia, SWD(2016) 30 final; European Commission (2016). Ex-ante evaluation statement on EU macro-financial assistance to the Republic of the Hashemite Kingdom of Jordan, SWD(2016) 213 final.

<sup>126</sup> Annual reports on the implementation of the EU instruments for financing external actions. Data refer only to external aid financed through the EU budget and do not include bilateral aid coming from Member States.

### **5.1.3 Issue 3: Focus of conditionality**

#### **High-level analysis**

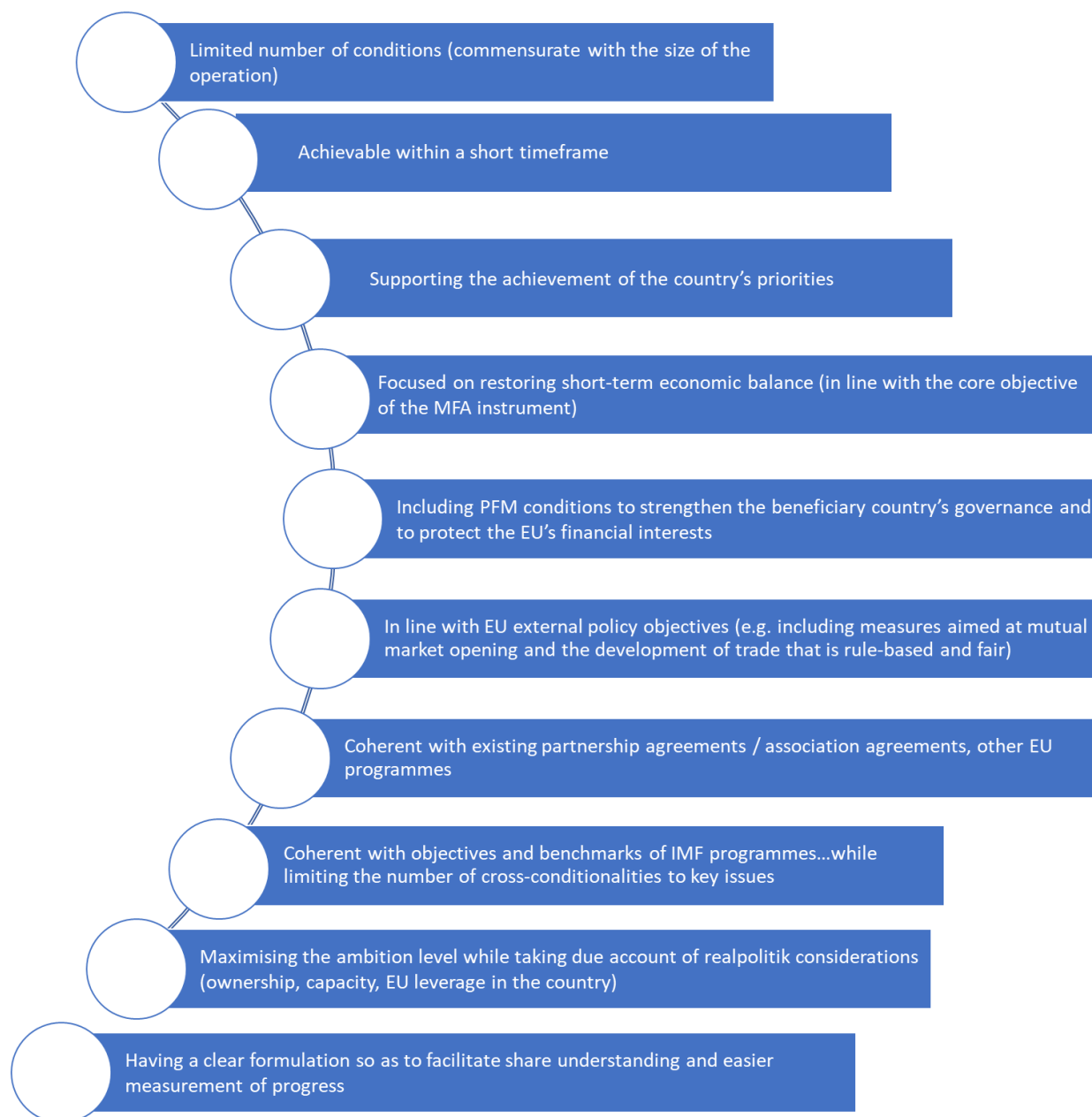
Given the anti-crisis nature of the MFA instrument, the first tranche of MFA assistance is typically released shortly after the signature and ratification of the relevant MoU and associated loan/grant agreements, provided that the IMF programme is on track<sup>127</sup>. The subsequent tranches, however, are conditional on the fulfilment of a number of pre-agreed policy conditions (set out in the MoU), as well as sufficient progress on a parallel IMF programme.

The guidelines on EU MFA to third countries and the Joint Declaration of the European Parliament and the Council from August 2013 provide a set of principles to steer the design and selection of MFA conditionality. These are outlined below, together with key other principles.

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<sup>127</sup> The MFA instrument also gives the option to frontload the conditions. Although not common practice, room for manoeuvre exists and was used (e.g. MFA IV to Ukraine).

Figure 10. Guiding principles



Source: ICF Study team.

This sub-section provides answers on the overall relevance of MFA II to Tunisia's conditionality package, in light of these guiding principles and taking due account of the objectives of the operation.

### **The extent to which the conditionality was in line with the core objectives of the operation and EU priorities**

The MFA II to Tunisia focused on the following reform areas: (i) PFM and civil service reform, (ii) taxation, (iii) social protection, (iv) labour market; (v) financial sector, (vi) investment climate and (vii) tourism. Many of these reform areas have a clear link either to the objectives of the MFA operation (PFM, taxation, financial sector) and/or EU external policy objectives (investment climate). Given the specific context of Tunisia, the

other areas targeted were particularly pertinent at reform area level (social sector, civil service reform and labour market areas).

### **Number of conditions and scope of conditionality**

For MFA I, the perspective of the authorities was that there were too many conditions (nine). MFA II to Tunisia had 15 conditions (while the financial envelope rose by two-thirds<sup>128</sup>). Insights from interviews suggest that this was again seen as too many and too dispersed (at seven or even eight different fields, counting civil service reform separately).

Looking at the history of MFA operations, the average number of conditions is 11, for a median amount of EUR 140 million. The 15 conditions attached to MFA II to Tunisia need to be viewed in the context of the relatively large size of the operation. In relative terms, MFA II to Tunisia counts among those with the largest assistance (in EUR million) per condition and is in contrast to some other MFA operations that had significantly lower disbursement per condition (e.g. Moldova II).

*Table 15. Number of conditions, amount of assistance and ratio of amount of assistance per condition, MFA operations 2009-2018*

<b>Countries/operations</b>	<b>Total number of conditions</b>	<b>Amount of MFA assistance (EUR million)</b>	<b>Amount of MFA assistance per condition (EUR million)</b>
Ukraine III	36	1,800	50
Moldova II	28	100	4
Ukraine I	25	610	24
Tunisia II	15	500	33
Lebanon	13	40	3
Ukraine II	11	1,000	91
Serbia	11	200	18
Jordan II	11	200	18
Georgia II	11	46	4
Bosnia and Herzegovina	10	100	10
Tunisia I	9	300	33
Jordan I	9	180	20
Armenia	9	100	11
Georgia I	8	46	6
Kyrgyzstan	7	30	4
Moldova I	4	90	23
Median numbers	11	140	18

<sup>128</sup> EUR 300 million under MFA I versus EUR 500 million under MFA II.

Source: ICF analysis of MFA MoUs 2009-2018.

The analysis of the number of conditions must be undertaken in conjunction with an examination of the exact content of the conditions. The classification in Table 15 aims to distinguish the types of conditions and timeframe within which tangible impacts can reasonably be expected.

Table 16. *Classification of MFA conditions*

Types of conditions		Description
Type A - concrete measures	With immediate impacts	Concrete measures often narrow in scope, with immediate impacts Impacts can be long-lasting but not necessarily. Also includes one-off measures
	<i>With no immediate impacts</i>	Concrete measures often narrow in scope, with no immediate impacts in and of themselves. Typically entail conditions to take stock of a particular situation and potentially facilitate more informed decision-making (e.g. undertaking a survey or study)
Type B - actions forming part of a longer reform process	<i>(in sequential order)</i>	Preparatory steps that are key for the change to happen subsequently. Can relate to the drafting of a strategy or an action plan; submission of a law to parliament or setting up a technical system. Stepping stones are not necessarily quick-wins (drafting a good quality strategy may take time and require extensive consultations; and submission of a law to parliament may require political capital, depending on the topic)
	Stepping stone	
	New legislative/institutional change	Refers to the parliamentary passage of a law and setting of a new institution. This type of action typically implies the involvement of institutions over which the government does not have direct control
	Follow-up on legislative/institutional change	Tangible impacts of actions forming part of a longer reform process will materialise only once the implementation has been completed. Other steps prepare the ground on paper and foster changes in mentalities

Source: ICF Study team.

Applying this classification to Tunisia, there appears to have been an effort to balance the use of different types of conditions and tailor the type of condition to the Tunisian context. Concrete measures with immediate impacts were included as MFA conditions. This seems appropriate, given the level of frustration with the reform process and eagerness of civil society to see tangible impacts from reforms in Tunisia. Several conditions also pushed implementation, which can be seen as a way to follow through on earlier steps and tackle the general lack of enforcement described in the focus group

discussions. For reform areas linked to potentially very controversial issues (such as the reform of the civil service and the targeting of social transfers), conditions required the establishment of stepping stones. Reflecting the EU leverage in the country, there were three examples of conditions requiring legislative change. As a general rule, this type of condition needs to be handled with care as it typically implies the involvement of institutions over which the government does not have direct control. The Tunisian authorities saw the use of this type of condition as a key principle issue whose use was even more problematic in the context of parliamentary fragmentation. Where this type of condition is used, it is even more important to fully align with the government's own reform plans. This was not the case for the condition on the Euro-Mediterranean agreement. By contrast, there was perfect alignment between the other conditions of this type and the authorities' plans, although both conditions nevertheless posed problems during the implementation period.

Condition 2, on the parliamentary passage of the new law on the CdC, blocked the disbursement of the second tranche<sup>129</sup>. Although ambitious, the inclusion of this condition can be seen as justified, given: (i) the EU involvement with that specific aspect (this condition was the successor to a condition under MFA I, requiring the submission of the relevant law, there were parallel budget support and technical assistance programmes from the EU and its Member States), and (ii) the expected benefits in terms of administrative and financial independence of the Court of Auditors.

Condition 10, on the suppression of the VAT middle rate, is more open to debate. The EU was involved to only a limited extent in those early discussions. The text of the MFA condition is unclear about the rate at which sensitive products – then taxed at the middle rate – should be taxed. The main expected benefit was simplification but the broader anticipated fiscal and social impacts of the reforms were not clear, as authorities' more detailed plans included both reductions and increases in rates, depending on the products and services concerned.

Table 17. *Classification of MFA II conditions for Tunisia*

Types of conditions		Tunisia
Type A - concrete measures	With immediate impacts	Three conditions: <i>Labour market</i> : Rollout of FORSATI programme Launch of <i>Contrat Dignité</i> #6; #7 <i>PFM</i> : Rollout of TUNEPS #9
	<i>With no immediate impacts</i>	
Type B - actions forming part of a longer reform process	<i>(in sequential order)</i>  Stepping stone	Five conditions: <i>Civil service</i> : Adoption strategy #1 <i>Social safety net</i> : Completion of social survey; action plan for the implementation of reforms; Strategic Orientation Note; submission of law

<sup>129</sup> Information from MFA annual reports and accompanying staff working documents. Available at: [https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries\\_en](https://ec.europa.eu/info/business-economy-euro/economic-and-fiscal-policy-coordination/international-economic-relations/macro-financial-assistance-mfa-non-eu-partner-countries_en)

Types of conditions	Tunisia
	to parliament #4; #5; #11; #12
New legislative/ institutional change	<p>Four conditions:</p> <p><i>Tourism</i>: Initialling new Euro-Mediterranean Aviation Agreement #15</p> <p><i>PFM</i>: Parliamentary adoption of the CdC law #2</p> <p><i>Tax reform</i>: Elimination of the middle VAT rate/ reducing exemptions #3; #10</p>
Follow-up on legislative/ institutional change	<p>Three conditions:</p> <p><i>Financial sector</i>: decrees deposit guarantee scheme #14</p> <p><i>Investment climate</i>: decrees and by-laws for investment code #8, #13</p>

Beyond the type of conditions, there is also the matter of clarity. A priori the formulation of some conditions seemed to be quite vague (e.g. condition #3 on VAT reform, which uses wording such as 'substantial reduction'). In MFA II, that lack of precision did not hamper shared understanding of the conditions, but was instead viewed as built-in flexibility (in a context where conditionality is determined ex-ante).

### Complementarity/cross-conditionality with other EU and IFI programmes

This is discussed in the section on coherence.

### The extent to which the operation addressed priority areas for reforms, relevance of specific reform areas and conditionalities

Targeted reform areas should be in line with national priorities. In Tunisia, there are several examples of MFA conditions aligning with the government's action and/or clearly intended to push for the government's own commitments in national plans, notably those embedded in the National Development Plan 2016-2020<sup>130</sup>. The MFA conditions were also clearly grounded in the ex-ante evaluation in 2016, which listed the country's structural reform needs<sup>131</sup>. The Commission also alluded to the Operational Assessment (OA) of the financial circuits and procedures conducted ahead of MFA I (in 2014) as one source of evidence to determine the priority needs for the PFM reform area.

<sup>130</sup> See, for example: Action 3 'in line with the Tax Reform Strategy adopted by the government in May 2016'; Action 6 'make substantial progress in the implementation of the FORSATĪ programme managed by the Ministry of Employment'; Action10 'Building on the reforms of the VAT introduced in the context of the 2017 Budget Law'; Action 12 'Consistent with the National Development Plan 2016-2020 adopted by government in May 2016'; Action14 'Following the adoption by parliament of the new Banking Law'.

<sup>131</sup> For Tunisia, only the reform of the civil service and the support for the tourism sector were not explicitly listed in the ex-ante evaluation. For Jordan, all targeted areas were chosen from areas indicated as possible areas of conditionality.



Overall, the MFA conditions were very much aligned with Tunisia's own plans. One exception is the condition on the Euro-Mediterranean Agreement. Initially, there was no support for this measure in Tunisia and the Study team understands that the authorities in fact tried to oppose it. It was a risky approach for the EU to insist on the inclusion of that condition, albeit one that saw the Tunisian authorities eventually initial the agreement and the potential benefits of the agreement recognised in Tunisia (in terms of improved trade and tourism). Had it entered the public sphere at an early stage when the opinions on the Agreement had not yet independently been formed in Tunisia, it could potentially have harmed the EU image to have this condition – particularly given the way Deep and Comprehensive Free Trade Area (DCFTA) negotiations are perceived in Tunisia. The risk was that the EU be perceived as pursuing its own liberalisation agenda (primarily in the interest of those Member States with an aviation industry), at a time when Tunisia was in crisis.

More positively, the EU refrained from including measures related to the preparation of the DCFTA in MFA II, which were initially envisaged as part of the operation. This was a welcome development given the difficulties encountered with conditions in the trade area under MFA I. More importantly, the focus group discussions confirmed that the DCFTA negotiations are not well perceived by civil society in Tunisia, thus including conditions related to the DCFTA could have entailed reputation loss for the EU, but also presented additional risks, e.g. in terms of interference with negotiations or timely compliance.

Aside the Euro-Aviation agreement, the Tunisian operation featured two other conditions which promoted the EU's economic interests, alongside the countries' priorities (access of firms including foreign firms to Public Procurement in Tunisia; relaxation of rules of market access for investors including foreign investors). Such conditions are not entirely consistent with the 'untied' nature of the assistance provided under MFA. Overall, without key changes in substance, the formulation of the final draft of the MFA II MoU was softened compared to earlier drafts. For instance, the public procurement condition initially mentioned that 'all public procurement tenders should be open in practice for foreign bidders, removing any de facto distinctions between domestic and foreign bidders currently being applied'. This was no longer the case in the final draft of the MoU even if access of foreign firms to Public Procurement in Tunisia remained an objective, judging by the way this condition was assessed.

The relevance of each targeted reform area is discussed further below. Alongside the principles providing a general framework for design of MFA conditionality, the design and selection of specific conditionality should take into account factors such as national ownership and implementation capacity to reduce the risk of implementation deficit and subsequent backtracking. This was easier to take into account these factors under MFA II as opposed to MFA I (especially in areas where there was continuity). There is notably evidence that the ambition level of the SSN conditions was better calibrated under MFA II compared to MFA I.

This section should be read in conjunction with the detailed conditionality tables (see Annex 8).

### Box 3. PFM

With the aim of reinforcing the beneficiary country's governance and protecting EU financial interests, PFM conditions typically feature among the list of MFA conditions. This is in line with the principles in the Joint Declaration of the European Parliament and the

Council from August 2013<sup>132</sup> .

MFA II PFM conditions encompassed conditions in two sub-areas: external audit and public procurement. Both featured as areas with priority needs for reform in the OA of the Tunisian financial circuits and procedures conducted in 2014 (ahead of the first MFA operation).

In the field of external audit, the MFA II condition aimed to reinforce the administrative and financial independence of the CdC and required parliamentary adoption of the CdC law. It followed the MFA I condition, which required the submission of that law to parliament. The administrative and financial independence of the CdC featured among the provisions of the 2014 Constitution, thus the MFA II condition was fully aligned with Tunisia's own reform agenda. Yet its nature was seen as problematic by Tunisian stakeholders, as the successful passage of the legislation by the Tunisian Parliament is ultimately entirely up to the Tunisian Parliament. To some extent, however, these concerns were mitigated by the fact that the Tunisian Parliament ratified the MoU (and its list of conditions) as part of the MFA II approval process.

The condition relating to public procurement (a newly targeted field) aimed to accelerate the rollout of an electronic procurement system whose installation/testing was already under way.

#### Box 4. Civil service

Since the 2011 revolution, the government has faced recurring social unrest in relation to poor employment opportunities, especially for young people. One policy response was to hire many citizens into the public sector, through the central administration, in state-owned enterprises, and more recently, in the army, after the outbreak of the Libyan civil war and the threat from by Islamic State group activities at borders. In parallel with recruitment, salaries have also increased. As a result, the wage bill rose markedly, reaching 14.7% of GDP in 2016 (up from 10.8% in 2010)<sup>133</sup>. Containing the wage bill became a crucial issue to address in order to maintain budget sustainability.

The increase in the size of the public administration created efficiency challenges (e.g. organisational challenges in the context of overstaffing, considerable drop in the performance of civil servants, demotivation). These added to the existing challenges, notably the administrative (rather than managerial) human resources management style.

The adoption of a comprehensive strategy to reform the civil service thus constituted a first step, envisaged by the authorities and called for as part of MFA II and the IMF EFF programme. The strategy would cover every aspect of the civil service career, including recruitment criteria, processes for skills assessment and promotion, alignment between salaries and performance, rationalisation of wages and opportunities to move to the private sector.

#### Box 5. Tax reforms

A fair and equitable taxation system is a legitimate social justice objective. In Tunisia, the way in which the tax burden is regularly criticised (prevalence of the informal sector, compliance issues, especially by the liberal professions, overuse of the flat rate tax system - *regime forfaitaire*, insufficiently wide VAT base, insufficiently progressive

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<sup>132</sup> Joint Declaration of European Parliament and the Council of 12 August 2013. Available at: <https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013D0778&from=EN>

<sup>133</sup> Ministry of Finance data.

personal income tax). A study from 2017 found that the moderately poor households in Tunisia were actually worse off after the effects of taxation, social transfers and subsidies, while only the poorest benefited<sup>134</sup>. An increased reliance on VAT as a source of tax revenues<sup>135</sup> (compared to the 1980s and 1990s when custom duties were more widespread) disproportionately affected the budget of lower-income groups. As of 2016, VAT revenue, personal income tax and corporate tax revenue accounted for 27%, 32% and 9% of tax revenues, respectively<sup>136</sup>.

The authorities committed to reforming the system in 2016 through the adoption of a tax reform strategy. The preparation of this strategy was a long-term initiative, which entailed two years of consultations and technical assistance from the IMF. Referring to the strategy, the MFA conditions called for a reduction in the number of VAT exemptions and harmonisation of the VAT rates to two levels (6%, 18%) instead of three (6%, 12%, 18%).

#### Box 6. Financial sector

The financial sector, largely dominated by public banks, is considered a source of vulnerability. It is notably characterised by large volumes of non-performing loans (NPLs) (reflecting hasty lending to certain sectors, such as tourism), which pose a threat to resilience and also constrain the ability of the sector to finance the economy<sup>137</sup>.

The EU and other donors (particularly the IMF) supported the reform of the sector. More specifically, the MFA II condition followed an MFA I condition on setting up a deposit guarantee scheme for banks, foreseen in the new Banking Law. In a context where NPLs were structurally high and where sudden shocks could quickly and significantly affect the volume of NPLs (e.g. through shocks to the tourism sector), having a functional deposit guarantee scheme was particularly useful. It was an additional step, complementary to the resolution framework (also included in the Banking Law), in the recapitalisation of the top three public banks in 2015-2016 and reinforcement of their ability to deal with NPLs.

#### Box 7. Labour market

According to the WB, in 2017, around 27% of people aged between 15-24 years old were unemployed in the MENA region. This rate peaked at 35% in Tunisia and has remained high since then, especially in less urbanised regions<sup>138</sup>. Educated young people are most

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<sup>134</sup> Nizar Jouini et al. (2017). 'Fiscal incidence and poverty reduction: evidence from Tunisia'. *Commitment to Equality (CEQ) working paper*. Tulane University. June 2017 update.

<sup>135</sup> Mounir Hassine (2017). 'Rapport sur les droits économiques et sociaux 2017'. Forum Tunisien Droits Economiques Sociaux, A propos des droits économiques, sociaux et culturels sept ans après la révolution.

<sup>136</sup> Ministry of Finance data.

<sup>137</sup> EBRD (2018). Tunisia: assessing progress and challenges in unlocking the private sector's potential and developing a sustainable market economy. Diagnostic paper.

<sup>138</sup> World Bank, based on ILO modelling. Available at: <https://data.worldbank.org/indicator/SL.UEM.1524.ZS?locations=ZQ-TN>

affected by unemployment, with the unemployment rate of graduates reaching 30% in 2017, compared to 11% for non-graduates<sup>139</sup>. The Tunisian economy tends to create more unskilled than skilled jobs and thus is unable to absorb all graduates. Nor do the profiles of graduates always match the needs of the Tunisian market, given the high concentration of students in general higher education system. As of 2017, almost half of students were studying social sciences and humanities, while the share of students in higher vocational education stalled at around 8%<sup>140</sup>. The public sector traditionally attracts a lot of graduates but is not able to provide job opportunities for all, given budgetary and other constraints. This situation triggered several episodes of social unrest, with demands for the creation of employment opportunities.

The national authorities launched several ALMPs, including wage subsidies programmes such as the Contract for Initiation into Professional Life (CIVP) and the Civil Service Contract (CSC), primarily targeting young people, as well as a new programme, the Contract of Dignity (KARAMA), targeting the long-term unemployed. A personalised job search assistance programme (FORSATI) was also launched in 2016. MFA II conditions pushed for the deployment of two of these programmes (KARAMA and FORSATI).

#### Box 8. Social protection

The ex-post evaluation of MFA I noted the substantial role of food and energy subsidies in social protection in Tunisia. The Caisse Générale de Compensation (CGC) was established in the 1970s to maintain price stability for food items and alleviate the impact of inflation on the most vulnerable households. At the time, the significant size of the informal sector and high levels of poverty pushed the government to adopt a universal subsidies system, like many countries in the region. Such policies are unsustainable in the long term, however. According to the OECD, the share of government expenditure allocated to subsidies/compensation reached 2.4% of GDP in 2016, of which 1.7% was food and 0.5% transport while the energy subsidies represented 0.2% of GDP. The system fuels the fiscal deficit but is also unfair, with 70% of the subsidies going to the wealthiest 20% of the Tunisian population<sup>141</sup>.

The country had to replace untargeted safety nets models with a new method allowing the protection of the most vulnerable households (avoiding social unrest) while generating a greater fiscal space for the government. Existing social safety net programmes providing cash transfers to vulnerable families (PNAFN) and programmes offering healthcare for free (AMGI) or at a reduced rate (AMGII) could be used for that purpose. However, these do not effectively target the poor, with a lot of inclusion and exclusion errors detected. The Tunisian authorities reiterated their commitment, as part of MFA II, to put the information system/machinery in place to better target the programmes and better decide the criteria used to define eligible households.

The specific conditions attached to MFA II directly followed MFA I progress and seemed

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<sup>139</sup> European Commission (2016). Ex-ante evaluation of MFA II in Tunisia. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1476964903312&uri=CELEX:52016SC0030>

<sup>140</sup> European Training Foundation (2019). *Marché du travail, dynamique des compétences et politiques d'emploi en Tunisie*.

<sup>141</sup> World Bank (2014). *The Unfinished Revolution: Bringing Opportunity, Good Jobs, and Greater Wealth to All Tunisians*.

well-tailored to the level of maturity of the reforms at the time (unlike MFA I, where a mismatch was identified between capacity/maturity and the timeline). Technical support from the EU and the WB, however, remained crucial for progress.

Box 9. Investment/business climate

Interviewees highlighted the need for greater economic liberalisation in Tunisia. Several sectors/ industries have long been monopolised (e.g. import/sale of cars), restricting market entry, free competition, and better market outcomes. Reforms aiming to improve the business and investment climate have therefore been at the forefront of the reform process. In recent years, a new Competition Law, Law on Public-Private Partnerships and Bankruptcy Law have been passed, together with a new Investment Law, which was approved in September 2016, after more than two years of protracted discussions and negotiations. MFA II focused on the adoption of three by-laws, judged necessary for the implementation of the new Investment Law.

Other donor programmes, such as those of the IMF, WB and EBRD, also focused on reform in this area. Coordinated action among the donor community was viewed positively.

Box 10. Tourism

The economic importance and scope of its aviation relations with the EU make Tunisia an essential partner for the implementation of the Common Aviation Area between the two shores of the Mediterranean. Europe is the departure point for 82% of the tourists who travel to Tunisia, which are an important source of foreign currency earnings for the country.

At the time of the MFA II negotiations, a comprehensive Euro-Mediterranean Agreement was in the pipeline. The Agreement aimed to: (i) increase the number of direct flights; and (ii) set standards for issues relating to aviation (including passenger rights, safety and security, and air traffic management).

The idea of reaching an agreement was viewed positively by most stakeholders consulted and deemed relevant, notably for the possibility of improved trade and tourism flows between Tunisia and the EU. Such an agreement was also expected to facilitate the development of a regional integration process, encompassing not only aviation ties with the EU, but also aviation between the southern Mediterranean countries themselves.

Some resistance has been observed among certain actors, such as trade unions in the airline industry, which 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. The authorities were therefore initially reluctant to have this as an MFA condition.

Regardless of the context, the idea of including as an MFA condition the signature of an agreement where the EU industry has a direct and obvious stake (increasing the presence of EU aviation carriers in Tunisian airports) is itself 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 policy dialogue with Tunisia.

## **5.2 Coherence**

**Question:** *To what extent was the MFA II operation in line with key principles, objectives and measures taken in other EU external action towards Jordan and Tunisia in the context of the European Neighbourhood policy?*

### **5.2.1 Policy framework and principles**

Since 1977, Tunisia, has had longstanding relationships with the EU in areas related to economic development. Increased political cooperation and trade links forged in the 1990s have reinforced and strengthened these connections and resulted in landmark signing of Association Agreements (AA)<sup>142</sup> with the EU in 1995<sup>143</sup>. The AAs were designed to implement a framework for political dialogue and to foster a closer link between these countries and the EU, while also promoting a far-reaching liberalisation of trade relations and fostering opportunities for social and economic cooperation. The agreement with Tunisia came into effect in 1998 and was the first such arrangement created between the EU and a Mediterranean country. It was part of a coherent strategy aimed at strengthening the EU's relations with its southern neighbours.

Tunisia enjoys strategic partnerships with the EU as part of the ENP<sup>144</sup>. The ENP was developed in 2004 as a framework for relations with the EU's neighbouring countries, with the aim of promoting stability, security and well-being in the region. It is built on reciprocal agreements, notably the AAs, which establish agendas for political, economic and social reform, with short-term and medium-term priorities for the coming three to five years. These agendas are mainly funded by the European Neighbourhood Instrument (ENI), which will be integrated into the future Neighbourhood, Development and International Cooperation Instrument (NDICI)<sup>145</sup>.

In 2011, following the Arab Spring and the onset of the conflict in Syria, the EU strengthened its partnerships and cooperation with Tunisia in many areas, including supporting political transformation and democratic transition. The second half of 2011 also saw the adoption of negotiating directives for a DCFTA between the Council of the European Union and some partner countries, including Tunisia. The DCFTAs<sup>146</sup> are much deeper trade agreements, which aim to harmonise partner countries' legislation with that of the EU in trade-related areas. Negotiations for a DCFTA with Tunisia were launched in late 2015<sup>147</sup>, but little headway has been made in the intervening period.

Key dates and arrangements are presented in Table 17.

*Table 18. EU-Tunisia relations*

## **Tunisia**

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<sup>142</sup> [https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/southern-neighbourhood\\_en](https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/southern-neighbourhood_en)

<sup>143</sup> <https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>

<sup>144</sup> [https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/european-neighbourhood-policy\\_en](https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/european-neighbourhood-policy_en)

<sup>145</sup> <https://www.consilium.europa.eu/en/press/press-releases/2020/12/18/neighbourhood-development-and-international-cooperation-instrument-coreper-endorses-provisional-agreement-with-the-european-parliament/>

<sup>146</sup> <https://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia/>

<sup>147</sup> [https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/near\\_factograph\\_tunisia\\_en.pdf](https://ec.europa.eu/neighbourhood-enlargement/sites/default/files/near_factograph_tunisia_en.pdf)

- 1998** – AA comes into force
- 2011** – Approval of the start of negotiations for a DCFTA
- 2012** – Launch of the 'Privileged Partnership'
- 2014** – Signing of the Mobility Partnership declaration
- 2015** – Launch of DCFTA negotiations
- 2016** – Adoption of the Joint Communication, 'Strengthening EU support for Tunisia'
- 2018** – Ratification of EU-Tunisia strategic priorities by the Council as the main guiding principles for the EU-Tunisia Privileged Partnership for the period 2018-2020

Source: European Commission (2021) Factograph - EU-Tunisia relations.

## **5.2.2 EU assistance to Tunisia**

### **5.2.2.1 High-level overview**

From 2011 to 2020, EU total assistance to Tunisia has amounted to EUR 3 billion<sup>148</sup>, of which over EUR 2 billion has been given in grants, and EUR 800 million in MFA<sup>149</sup> through loans. Between 2016 and 2019, the bulk of EU financial assistance to Tunisia came from the ENI.

Figure 5.4. provides an overview of the EU's budget allocations for external assistance to Tunisia 2017-2019. The fact that disbursements are significantly lower than commitments illustrates absorption capacity issues. However, programmes larger in size<sup>150</sup> were signed in 2019, with relevant disbursements expected only with an inherent time lag.

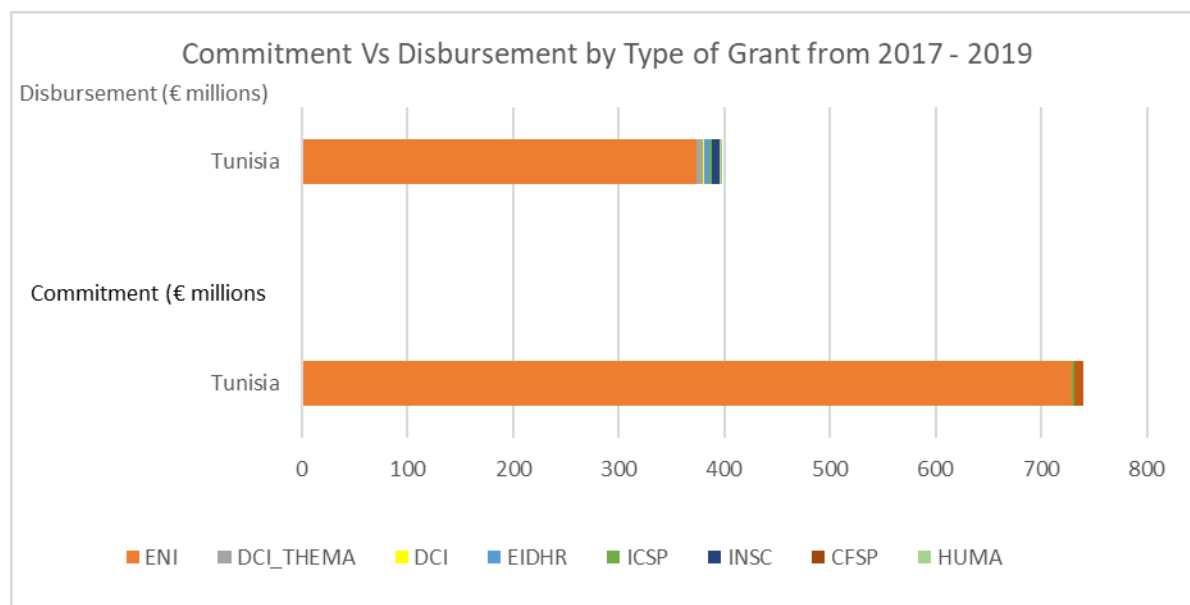
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<sup>148</sup> [https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/tunisia\\_en](https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/tunisia_en)

<sup>149</sup> Total amount disbursed as of 2020.

<sup>150</sup> The three larger programmes committed in 2019 include: PAGE - Programme d'appui à la gouvernance économique (EUR 243 million); Appui au développement rural en Tunisie (EUR 90 million); Appui à l'Inclusion sociale en Tunisie (EUR 100 million).

Figure 11. EU budget for external assistance to Tunisia, MFA II



Source: European Commission annual reports 2017-2019.

In addition to the MFA and ENI, the other main financing instruments used by the EU to support Neighbourhood countries include: the so-called umbrella funds or the 'more for more' incentive scheme, which rewards progress in making reforms; the EU Emergency Trust Fund for Stability, which seeks to tackle the root cause of irregular migration patterns and displaced people; aids to investment; EU thematic programmes (e.g. European Instrument for Democracy and Human Rights (EIDHR), and the largest EU blending platform, the Neighbourhood Investment Facility (NIF).

Outside of this support, the European Investment Bank (EIB) is a major lender to Tunisia, investing a little over EUR 1 billion<sup>151</sup> between 2015 and 2019. The EIB invests primarily in infrastructure, education, and job creation through private sector investments, including as part of the EIB Economic Resilience Initiative<sup>152</sup>, and with the support of the EU blending instruments.

Tunisia has been a member of the EBRD since 2014, with total cumulative investments of EUR 963 million as of 2020<sup>153</sup>.

### 5.2.2.2 Overview of the assistance provided via budget support programmes (grants) and MFA assistance (loans)

Figure 13 presents MFA disbursements alongside total EU external aid and EU budget support assistance more specifically, as those budget support programmes also aim to encourage the reform process.

<sup>151</sup><https://www.eib.org/en/projects/regions/med/tunisia/index.htm>

<sup>152</sup> The Economic Resilience Initiative is part of the EU response to the challenges in the Southern Neighbourhood and Western Balkans.

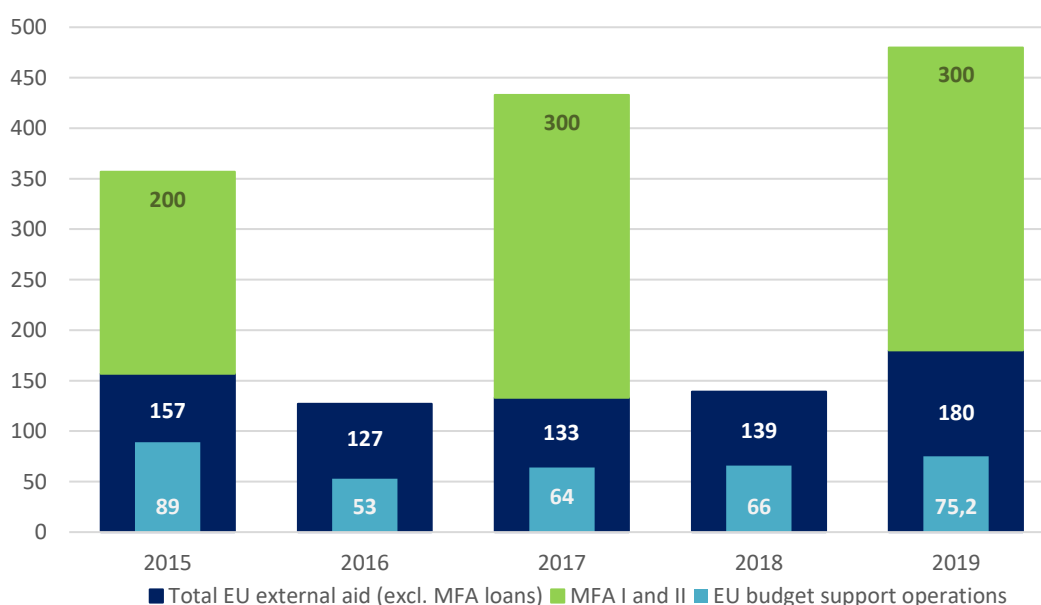
<sup>153</sup> <http://www.ebrd.com/jordan.html> and <http://www.ebrd.com/tunisia.html>



In the period 2015-2019, EUR 1,536 million was disbursed to Tunisia. As part of this, EUR 800 million were disbursed via MFA operations in loans (MFA I and II combined) while EUR 736 million was disbursed in grants (including EUR 347.2 million of disbursements from budget support programmes) (see Figure 13).

In 2020, no MFA-related disbursement took place but disbursements under EU budget support programmes were exceptionally high (EUR 240.4 million), as all variable tranches were converted to fixed tranches to help the country cope with the effects of the COVID-19 pandemic.

Figure 12. EU external aid to Tunisia, by type, and MFA, 2015-2019, in EUR million (disbursement data)



Note: Data refer only to external aid financed through the EU budget and do not include bilateral aid from Member States or financing from the EIB.

Sources: annual reports on the implementation of EU instruments for financing external actions; budget support - trends and results reports; ECFIN website for information on MFA ([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](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)).

In Tunisia, there were (depending on the year) between 8 and 11 different budget support contracts over 2017-2019, which is high compared to other countries<sup>154</sup>.

The most sizable contracts implemented in Tunisia are general budget support programmes (*Programmes d'Appui à la Relance*, PARs). MFA II potentially has links with the fourth and fifth PAR, which are EU-only operations<sup>155</sup>.

<sup>154</sup> Only Morocco has a higher number of budget support contracts (17 in 2019) (Budget support - trends and results reports).

<sup>155</sup> The first two editions were funded together with other donors: PAR 1 - WB, AfDB and AFD; PAR 2 – WB and AfDB.

Other programmes are sectoral, smaller in size and covering a variety of sectors and issues, including: Education and training; Social inclusion; Agriculture & rural development and food security; Energy; Trade and private sector development; Competitiveness; Water and sanitation; Decentralisation; Public administration; Economic and financial governance; Justice.

### 5.2.2.3 Coherence with other programmes and initiatives

#### Coherence with other EU programmes and initiatives

##### MFA I vs MFA II

Table 18 shows that, in three instances, MFA II focused on the same aspects of the same reforms (social safety net, PFM, financial sector). Tax reforms were covered by both operations, but the conditions focused on different aspects – income tax (*regime forfaitaire*) under MFA I and VAT reform under MFA II. At the initial stages of the design of MFA II, it was envisaged that a condition be included to press on the same aspects as MFA I. This idea was later abandoned because reform progress in relation to the *regime forfaitaire* had been tedious, and there was a greater desire to reinforce the message of the parallel IMF programme.

Continuity with MFA III is not presented here, given the specificities of the COVID-19 response, notably its accelerated timeframe.

Table 19. Mapping of conditions – MFA I vs MFA II in Tunisia

	MFA I	MFA II
Areas where MFA II focuses on the same aspects of the same reform		
Social safety net	Survey (launch) Database on vulnerable and low-income households based on a single Social Identification Number Cash transfer programme to compensate energy price subsidies	Survey (completion) Strategic Orientation Note on the reform of the main social transfer programmes New law that will replace the current legislative framework governing the social transfer programmes Action plan for the implementation of reforms to improve the effectiveness and sustainability of the country's social protection system
PFM	Law on the CdC (submission to parliament)	Law on the CdC (adoption by parliament) E-procurement
Financial sector	New Banking Law	New Banking Law

	MFA I	MFA II
	(submission to parliament)	(implementing decrees for the creation of the deposit guarantee scheme )
	Law aiming at strengthening governance of the CBT	
Areas where MFA II focuses on different aspects of the same reform		
Tax reform	<i>Regime forfaitaire</i>	Reducing the number of exemptions to VAT; suppressing the middle rate of VAT

Note: only reform areas addressed in both operations are shown. There were conditions in other areas (trade policy, statistics, civil service reform, labour market, investment climate, tourism sector) in one or other operation.

### MFA II operations in the context of the overall EU budget support package

Preliminary mapping shows that in many reform areas, through its different instruments, the EU was concentrating efforts on pushing for steady progress on those same aspects.

This is especially visible in the cross-conditions contained in both MFA operations and EU budget support programmes in PFM:

- PAR 4 contained a policy implementation condition (pre-dating the MFA II condition) linked to the adoption of the Law on the CdC by the parliament (not met within the agreed timeframe, waived);
- PAR 5 comprised variable tranche indicators on audit modernisation by CdC;
- The sectoral justice programme also included conditions in relation to the CdC.

Civil service reform (newly covered by MFA II) is another example, with synergies with the Programme on Modernisation of Public Administration (MAPU programme).

There are also instances of sectoral budget support programmes post-dating the design of MFA II but pursuing the same aims, such as two new programmes launched in 2019 on business climate and social safety nets.

In other areas, particularly tax reform, conditions in the MFA II and budget support programmes focused on different aspects (e.g. MFA II focus on VAT policy vs budget support programmes focus on tax administration), suggesting a division of roles in this instance.

### Technical assistance

Technical assistance was available to the Tunisian authorities in undertaking key reforms, although not necessarily provided by the EU itself. For instance, there were twinning projects from EU Member States in the external audit field and WB technical assistance projects for social safety net reform. The lack of technical assistance was not flagged as a key constraint for reform implementation.

## **Coherence with IMF, WB and other programmes**

The decision to grant MFA II to Tunisia was conditional on the approval of an IMF EFF worth up to USD 2.9 billion or 375% of Tunisia's quota at the time of approval of the arrangement.<sup>156</sup> Ratified in May 2016 for a 48-month duration, the EFF was initially based on eight reviews and nine fund disbursements but only five reviews were carried out, and up to USD 1.3 billion remained undisbursed, amid rising social tensions (nationally and regionally), strong opposition to reform, and sluggish global economic growth. The policy conditions attached to the IMF EFF were based on the economic stabilisation roadmap and reform programme endorsed by the Tunisian authorities and were largely consistent with agreements reached by Tunisia with the European Commission<sup>157</sup>.

The WB Group's engagement in Tunisia has grown significantly since the 2011 revolution. Over 2015-2019, the WB disbursed over USD 2 billion in loans to Tunisia<sup>158</sup>. In 2016, it prepared a Country Partnership Framework (CPF) for Tunisia, covering the period 2016-2020<sup>159</sup>. The CPF is implemented through the third Governance, Opportunities and Jobs GOJ-3 Development Policy Loan (DPL) approved in September 2015, the Business Environment and Entrepreneurship (BEE) DPL approved in 2017, and the Investment, Competitiveness and Inclusion (ICI) Development Policy Financing (DPF) approved in 2018 – all of which have links to MFA conditions.

Over the course of MFA II, donor coordination efforts progressively intensified. In July 2018, the first joint high-level mission was organised to support policy dialogue and reaffirm donors' support to key socioeconomic reforms in Tunisia. The high-level mission, led by then-European Commissioner for European Neighbourhood Policy and Enlargement Negotiations, Johannes Hahn, comprised senior representatives of the AFD, AfDB, EIB, EBRD, IMF, International Finance Corporation, KfW, and the WB. Following the mission, a first joint policy matrix was prepared and approved by the Tunisian government. Building on these efforts to support Tunisia's reforms, leverage more financing and improve its predictability, a new joint mission was organised in 2020, led by EU Commissioners from NEAR and ECFIN, and WB/EBRD Vice-Presidents) Based on the updated matrix, the WBG/KfW/JICA/AFD/AfDB prepared parallel and complementary policy-based operations, with a pre-agreed disbursement arrangement. Although the EU is not officially following this disbursement arrangement, its support is strongly aligned to the joint matrix.

Illustrating the strong coordination efforts even before the joint matrix, only one<sup>160</sup> of the conditions (external audit) was an EU-only condition. The conditions under the different donors' programmes were fully aligned and coherent.

*Table 20. Detailed cross-conditionality with the IMF/WB*

Condition/area	Donors involved
<b>PFM and civil service reform</b>	

<sup>156</sup> IMF (2016). Extended Fund Facility Agreement – Press Release. Available at: <https://www.imf.org/en/News/Articles/2015/09/14/01/49/pr16238>

<sup>157</sup> To be confirmed during the evaluation. IMF prior actions and structural benchmarks have been downloaded from the MONA database.

<sup>158</sup> WBG Finances - IBRD/IDA Summary (worldbank.org).

<sup>159</sup> World Bank Group (2016). Country Partnership Framework for the Republic of Tunisia for the period FY 2016-2020.

<sup>160</sup> The Euro-Mediterranean Agreement is another, but this was a very EU-specific condition.

<b>Condition/area</b>	<b>Donors involved</b>
Condition 1: Civil service reform strategy	IMF (one of the prior actions)
Condition 2: New Law on the CdC	EU only (MFA + budget support + EU-funded twinning projects)
Condition 9: E-procurement system	WB (one of the prior actions) AfDB assessment of the system
<b>Tax reform</b>	
Condition 3/10: VAT reform (reductions of exemptions to VAT and suppression of the middle rate)	IMF (one of the structural benchmarks – postponed and then dropped/narrowed to increase in VAT rates for liberal professions only)
<b>Social protection</b>	
Condition 4: Strategic Orientation Note on the reform of the main social transfer programmes; Condition 5: Amen Law	WB (one of the prior conditions + provided technical assistance (TA))
Condition 11: Survey of households	IMF (one of the structural benchmarks) WB (provided TA)
Condition 12: Plan for the reform of the wider social protection system	ILO, United Nations Children’s Fund (UNICEF) and WB (provided TA)
<b>Labour market reforms</b>	
Conditions 6/7: ALMP programmes	ILO projects
<b>Investment climate</b>	
Condition 8/13 implementation of the investment law	IMF (one of the structural benchmarks) WB (one of the prior conditions)
<b>Financial sector</b>	
Condition 14: Deposit guarantee scheme	IMF (one of the structural benchmarks)
<b>Tourism sector</b>	
Condition 15: Aviation agreement	EU only

Source: ICF review of documentation.

## **5.3 Effectiveness**

### **5.3.1 Part 1: Role of MFA in easing external financing constraints, alleviating Tunisia's balance of payments and budgetary needs, and strengthening the exchange rate**

A two-step approach was used to assess the role of MFA II in promoting macroeconomic stability, easing external financing constraints, and alleviating Tunisia's balance of payments and budgetary needs:

- Step 1: Examining the observed macroeconomic outcomes;
- Step 2: Assessing the role and contribution of MFA II operation to observed outcomes.

#### **5.3.1.1 Step 1: Examining observed outcomes**

This sub-section describes the evolution of key macroeconomic variables in Tunisia over the 2017-2019 period. It comprises an analysis of GDP growth, the external sector, public sector finances, inflation, (un)employment, and the situation in the banking sector.

#### **Sluggish economic recovery due to a combination of external and internal shocks**

After a modest and short-lived economic recovery during 2012-2014, Tunisia's economic situation worsened significantly in 2015. The terrorist attacks at the Bardo Museum and in Sousse in the first half of 2015, together with further attacks against presidential guards in the latter part of the year and the attempted invasion in Ben Guerdane by Daesh in March 2016<sup>161</sup>, could hardly be offset, severely affecting foreign investor sentiment, as well as crucial sectors of the economy, notably transport and tourism<sup>162</sup><sup>163</sup>. Despite the pick-up in the export of phosphates and some recovery in tourism, the fragility of Tunisia's socio-political environment continued to dampen confidence and stall growth. 2016 was marked by a lacklustre growth rate, levelling at just 1 per cent<sup>164</sup>.

The country experienced a modest recovery during 2017-2018 as a result of a solid performance the services (especially tourism), electrical and mechanical and agri-food sectors. Output grew by 1.9 per cent and 2.7 per cent in 2017 and 2018, respectively<sup>165</sup>. In the following year, however, GDP grew by only 1 per cent. The economic slowdown in the agricultural sector, along with increased governmental instability, the ongoing oil crisis and sluggish reform implementation contributed to slow growth.

Most recently, the COVID-19 outbreak and the subsequent economic crisis have severely damaged the Tunisian economy. In 2020, GDP contracted by an unprecedented 8.8 per cent, resulting in higher poverty and unemployment. In the last quarter of 2020, unemployment grew to 17.4 per cent (compared to 14.9 per cent in the fourth quarter of 2019).

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<sup>161</sup> The Guardian (2016). 'Tunisia border attack by suspected Isis forces kills 52.' Available at <https://www.ft.com/content/e7a728be-e445-11e5-a09b-1f8b0d268c39>

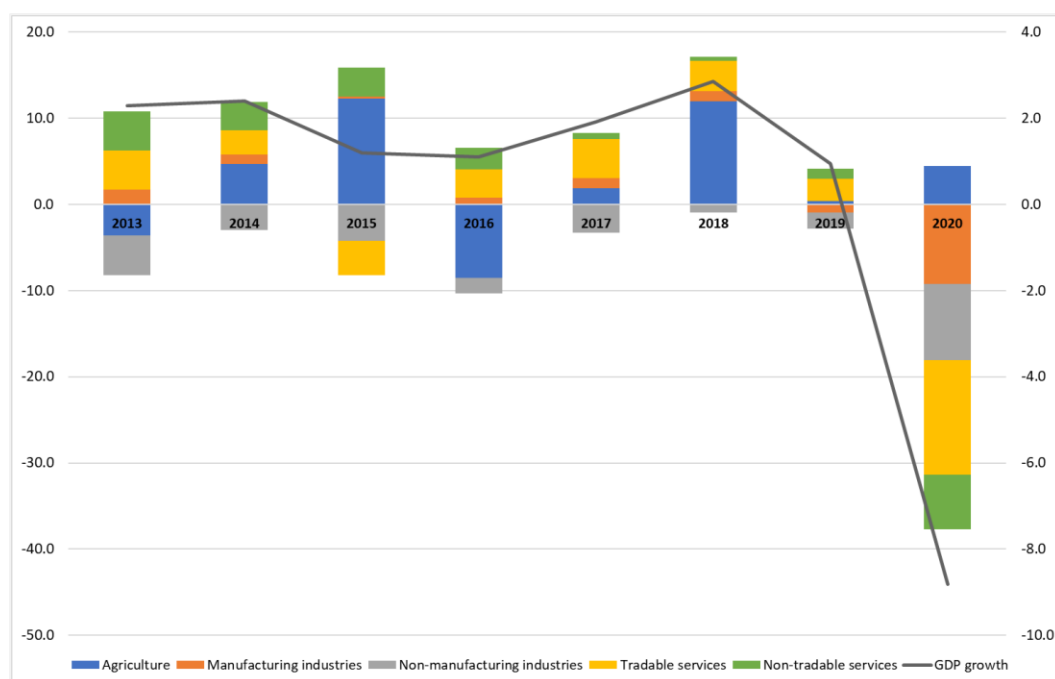
<sup>162</sup> As of 2014, tourism accounted for circa 7-8% of GDP and about 15% of employment in Tunisia.

<sup>163</sup> IMF (2015). Country Report, October. Available at: <http://www.imf.org/en/Countries/TUN>

<sup>164</sup> IMF (2017). Country Report, July. Available at: <http://www.imf.org/en/Countries/TUN>

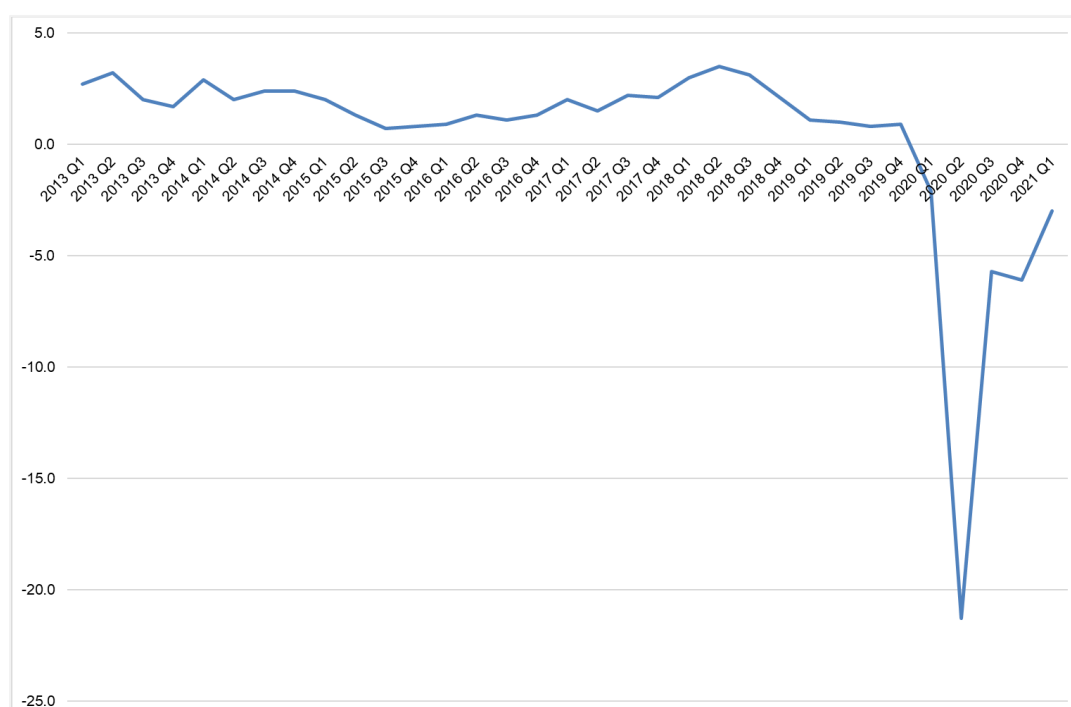
<sup>165</sup> OECD (2018). *Economic forecast summary – Tunisia*. Available at: <http://www.oecd.org/eco/outlook/economic-forecast-summary-tunisia-oecd-economic-outlook.pdf> ; IMF (2018). Country Report, March. Available at: <http://www.imf.org/en/Countries/TUN>

Table 21. Annual real GDP growth, by sector, 2013-2020



Source: National Institute of Statistics.

Table 22. Real GDP growth rate – quarterly data, 2013-2020



Source: National Institute of Statistics.

### 5.3.1.2 Labour market conditions remain very challenging

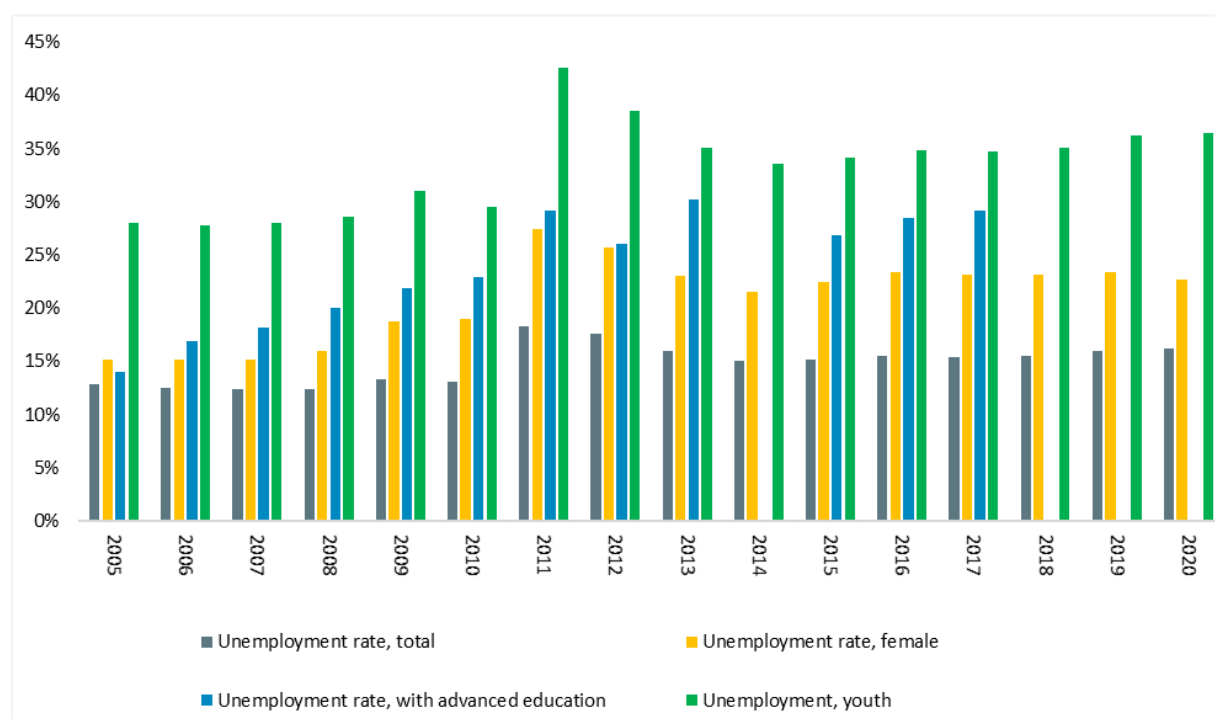
High unemployment rates have persisted for decades in Tunisia, particularly among women and young people (see Figure 14). The loss of jobs caused by the financial crisis

in the US and amplified further by the Arab Spring was only partly offset by some public sector hiring after 2011. Employment in the public sector rose from 18 per cent in 2010 to 19 per cent in 2017, although this came at a high fiscal cost. Most recently, the COVID-19 pandemic has seen unemployment rates rise above pre-revolution levels.

Youth unemployment rates have led to a doubling of total unemployment rates and constitute one of the most pressing social and political issues in the country. In 2019, total unemployment levels reached 16.0 per cent, while unemployment among young people reached 36.3 per cent<sup>166</sup>.

Some of the factors explaining these figures are labour supply pressures, the mismatch between the needs of employers and the education system (especially in interior regions), and inefficient or strict regulations governing the functioning of the labour market<sup>167</sup>. Employment statistics show that no tangible progress took place over the lifetime of MFA II.

Figure 13. Unemployment rates, 2005-2020



Source: WB data.

Note: Data on unemployment rate with advanced education is not available for recent years.

### 5.3.1.3 Income inequalities persist and fuel social discontent

Economic activity is concentrated in urban and coastal regions and the agglomeration of Tunis. This has resulted in the widening of income gaps between these regions and the interior and Southern regions, which were hit with much higher unemployment and poverty rates. For instance, the Kasserine Governorate (in west-central Tunisia) has a reported poverty rate of 32.0 per cent, well above the national and capital average of

<sup>166</sup> IMF database.

<sup>167</sup> Boughzala M. (2019). 'Unemployment in Tunisia: why it's so high among women and youth.' Available at <https://theforum.erf.org.eg/2019/05/07/unemployment-tunisia-high-among-women-youth/>



15.5 per cent and 9.0 per cent, respectively<sup>168</sup>. This income gap between regions increased further between 2010 and 2015<sup>169</sup>. According to the National Institute of Statistics (INS), in 2017, the total unemployment rate stood between 10.2 per cent and 15.9 per cent in the coastal areas (Governorate of Tunis and governorates in the east of the country), while it reached 17.5 per cent in the central eastern governorates and oscillated between 22.2 per cent and 24.8 per cent in the Southern governorates. These differences shed some light on the origin of the 2010 Arab Spring in the Southern governorates<sup>170</sup>. Even within regions, there is a large rural/urban divide with respect to income distribution.

#### **5.3.1.4 High inflation squeeze living standards**

Inflation remained stable in 2014 and 2015, and even started to fall amid declining international commodity prices, stable domestic food production, weakening of domestic demand and a prudent monetary policy adopted by Tunisian authorities in 2016<sup>171</sup>. In contrast, the inflation growth rate picked up sharply in 2017 and in the first half of 2018. This was mainly as a result of the credit growth<sup>172</sup>, increased fiscal spending and a substantial drop (-16.0 per cent) in the value of the Tunisian dinar against the euro<sup>173</sup>. To contain 'imported' inflation, the CBT gradually increased interest rates from 5.0 per cent in May 2017 to 7.8 per cent by February 2019<sup>174</sup>. As a result, and also thanks to a tightening of macroprudential regulation, inflation peaked at 7.7 per cent in June 2018 and then started to decline<sup>175</sup>. Most recently, the monetary tightening trend was reversed by the CBT in response to the COVID-19 crisis, introducing a rate cut in March 2020 and October 2020 respectively<sup>176</sup>.

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<sup>168</sup> Theconversation.com (2018).

<sup>169</sup> Amail, J. (2016). 'Regional inequality I Tunisia. Is it geographic misallocation or spatial nature effects?' Available at: <http://www.qeh.ox.ac.uk/sites/www.odid.ox.ac.uk/files/Amal-Regional%20Inequality%20in%20Tunisia.pdf>

<sup>170</sup> European Commission (2016). Ex-ante evaluation for MFA II.

<sup>171</sup> European Commission (2016). Decision of the European Parliament and of the Council providing further macro-financial assistance to Tunisia. Available at: <https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX%3A52016PC0067>

<sup>172</sup> Despite the lack of bank liquidity, which led to higher refinancing.

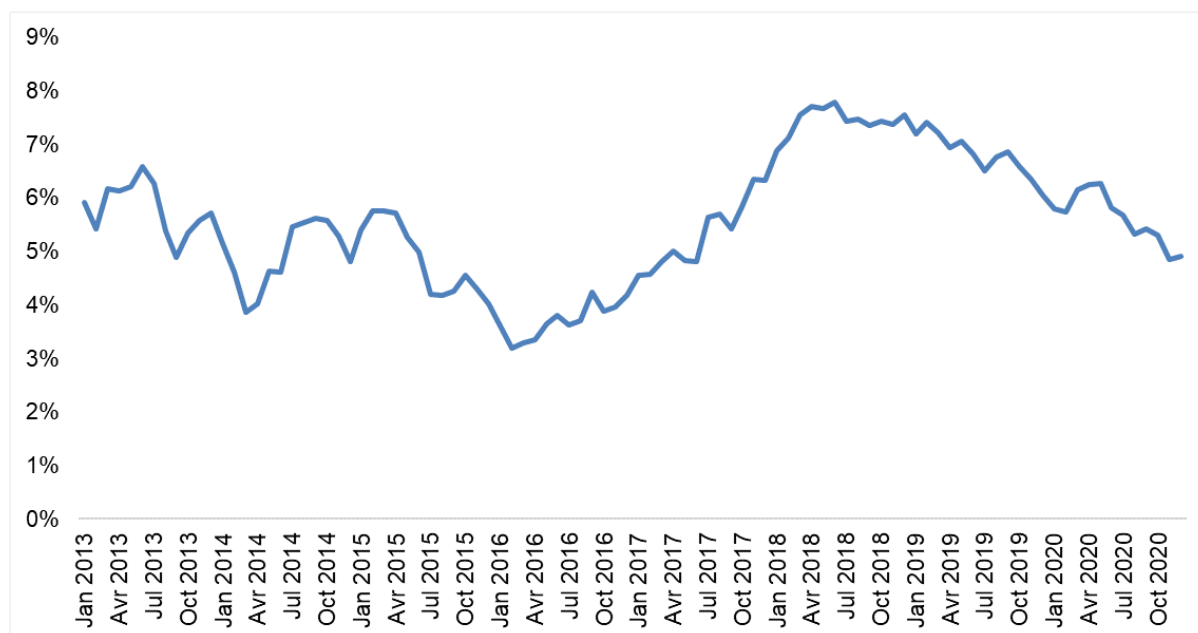
<sup>173</sup> BNP Paribas (2018). 'Tunisia.' Available at: <http://economic-research.bnpparibas.com/html/en-US/Tunisia-Alarming-deficits-4/25/2018,30898>

<sup>174</sup> CBT data. Available at: [https://www.bct.gov.tn/bct/siteprod/tableau\\_statistique\\_a.jsp?params=PL203260&la=an](https://www.bct.gov.tn/bct/siteprod/tableau_statistique_a.jsp?params=PL203260&la=an)

<sup>175</sup> IMF (2020). 'Tunisia Monetary Policy Since the Arab Spring: The Fall of the Exchange Rate Anchor and Rise of Inflation Targeting'. *IMF Working Paper* WP/20/167.

<sup>176</sup> CBT data. Available at: [https://www.bct.gov.tn/bct/siteprod/tableau\\_statistique\\_a.jsp?params=PL203260&la=an](https://www.bct.gov.tn/bct/siteprod/tableau_statistique_a.jsp?params=PL203260&la=an)

Figure 14. Tri-monthly inflation trends, 2013-2020



Source: CBT.

### 5.3.1.5 Unsuccessful attempt to contain fiscal deficit

Tunisia's public finances deteriorated following the 2011 revolution, more so from 2014. While fiscal consolidation measures helped to mitigate the deficit somewhat, fiscal recovery was rather short-lived. As such, upward pressure on the public-sector wage bill and lacklustre growth undermined efforts to keep the budget deficit on its downward trajectory<sup>177</sup>. In 2017, the public sector wage bill stood at nearly 15.0 per cent of GDP (one of the highest ratios in the world<sup>178</sup>), while the deficit reached 6.5 per cent of GDP. To stabilise public finances, the draft budget for 2018 (passed in December 2017) included a range of initiatives focused on limiting public spending.

Widespread public protests broke out across Tunisia in January 2018 after the government announced the Finance Act envisaging a rise in the price of basic goods, including food and petrol, a VAT increase, and a freeze/reduction in public sector salaries<sup>179</sup>. In response to the protests, and supported by influential trade unions<sup>180</sup>, the Tunisian government promised to spend USD 70.3 million to support poor families and provide better access to healthcare across the country<sup>181</sup>. Strong revenue performance, led by tax policy measures and higher profit transfers from the CBT and energy companies, helped to reduce the fiscal deficit to 4.8 per cent in 2018 and 4.1 per cent in 2019<sup>182</sup>. However, this trajectory changed abruptly as a result of the COVID-19 outbreak

<sup>177</sup> Oxford Business Group (n.d.). 'Tunisia to address rising public debt and fiscal deficit.' Available at <https://oxfordbusinessgroup.com/analysis/renewed-pressure-range-initiatives-aim-address-rising-public-debt-and-curb-fiscal-deficit>

<sup>178</sup> The Economist (2017). 'Between a rock and hard place: Tunisia and the IMF'. 19 July 2017.

<sup>179</sup> Aljazeera (2018). 'Tunisia austerity protests go on amid wave of arrests.' January 2018. Available at: <https://www.aljazeera.com/news/2018/01/tunisia-austerity-protests-wave-arrests-180126140735239.html>

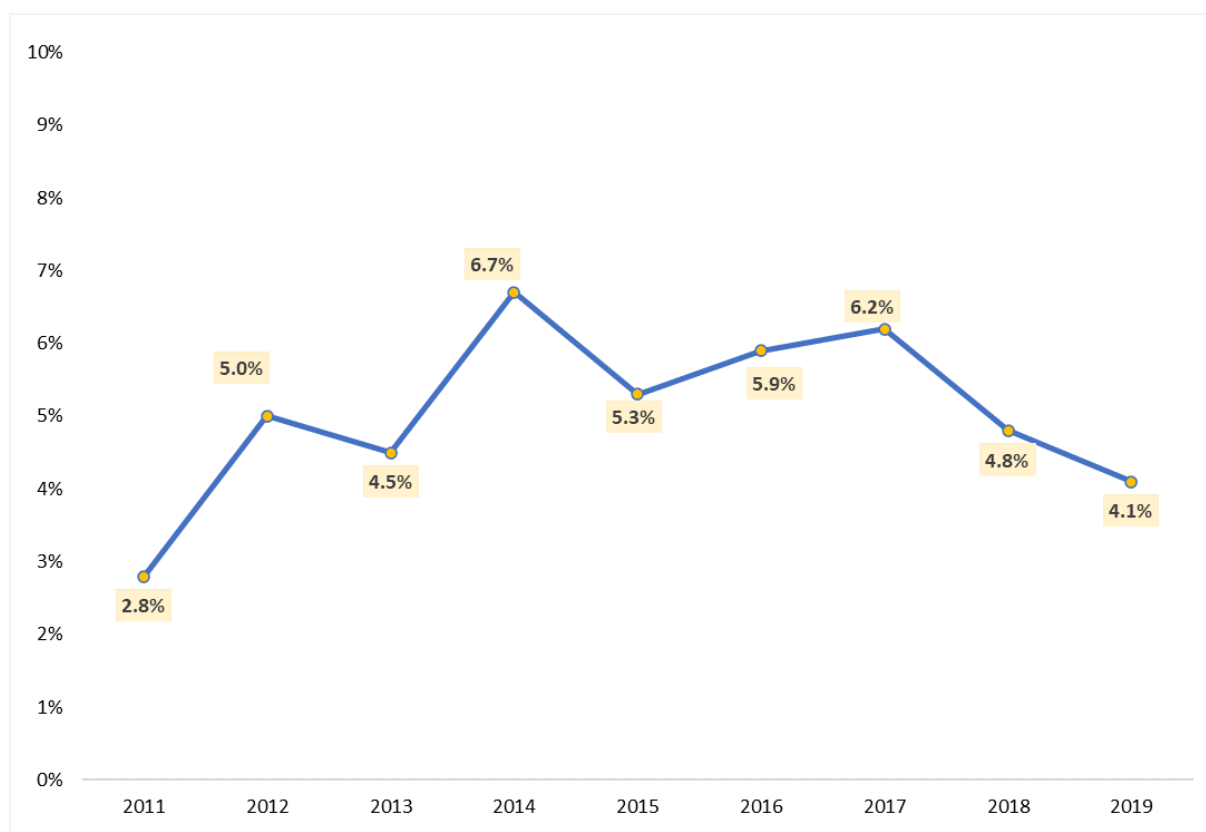
<sup>180</sup> Including the most powerful, *Union générale tunisienne du travail* (UGTT).

<sup>181</sup> Ibid.

<sup>182</sup> IMF (2019). Tunisia IMF Country Report, July 2019. No. 19/223.

in 2020. Lower revenue and higher public spending to fight the pandemic has placed severe pressure on the country's public finances<sup>183</sup>. Earlier this year (February 2021), Tunisia's Minister for Finance warned that the government is to adopt 'unpopular measures' to reduce budget deficit, including controversial measures such as subsidy cuts, privatisation of state companies or reduction of working hours for state employees<sup>184</sup>.

*Figure 15. Evolution of the fiscal/budget deficit (as a percentage of GDP) in Tunisia, 2011-2019*



Note: public sector deficit here relates to overall central government balance (cash basis). Source: IMF country reports for Tunisia

### **5.3.1.6 Accelerating public debt**

Years of prudent fiscal policy in the 2000s meant that public indebtedness was low in 2010, at 44.5 per cent of GDP. Nevertheless, post-revolution governments increasingly struggled to contain budget deficits (stemming from weak growth, reduced taxation revenue, and increased public-sector wage bills and preservation of price subsidies) and were compelled to borrow heavily in 2014 and 2015.

<sup>183</sup> IMF (2021). Regional Economic Outlook; IMF (2021). 'IMF staff completes Article IV consultation mission with Tunisia.' IMF Press Release no. 21/15. Available at <https://www.imf.org/en/News/Articles/2021/01/25/pr2115-tunisia-imf-completes-article-iv-consultation-mission-with-tunisia>

<sup>184</sup> Bloomberg (2021). 'Tunisia says it's now or never for painful economic overhaul'. Available at <https://www.bloomberg.com/news/articles/2021-02-04/tunisia-says-it-s-now-or-never-for-painful-overhaul-of-economy>

In 2016-2017, the persistence of high fiscal deficits and weak economic growth added to Tunisia's public debt. The ratio of public gross debt-to-GDP rose to 62.3 per cent and 70.9 per cent in 2016 and 2017 respectively<sup>185</sup>. Nearly three-quarters of the total public debt was external, financed primarily by foreign currency loans, the majority of which are concessional. This has gone some way towards reducing the debt service, albeit at the expense of increased external vulnerability<sup>186</sup>.

External debt comprised multilateral debts (50 per cent), debts contracted on international financial markets (36 per cent), and bilateral debts (14 per cent). Domestic debt was essentially made up of: assailable treasury bonds (59 per cent) and deposits at the General Treasury of Tunisia (31 per cent)<sup>187</sup>. As of 2017, the average maturity of the total public debt was 6.9 years, while the average maturity of the domestic and external debt was 5.9 and 7.4 years respectively<sup>188</sup>. The importance of (foreign) grants from bilateral and multilateral partners during the transition period was limited, at between 0.4 per cent and 1.8 per cent of total government revenue.

The steep upward trend in Tunisia's public debt continued in 2018 (up to 77.5 per cent of GDP), mostly driven by a strong depreciation of the Tunisian dinar<sup>189</sup>. In contrast, significant progress relating to fiscal consolidation allowed for a temporary drop in public debt in 2019 (which stood at 71.8 per cent of GDP). This was however short-lived as the COVID-19 spending boom put public debt back on an upward trend (at 87.6 per cent of GDP<sup>190</sup>). To combat rising public debt levels, a reform package was recently announced, including switching to targeted subsidies and restructuring of state-owned companies<sup>191</sup>. In the first half of 2021, the Tunisian government has also initiated several increases in administered prices, including petrol (March), water (April), public passenger transportation (June), milk (April) and sugar (May).

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<sup>185</sup> IMF (2018). WEO data.

<sup>186</sup> Ecofin Agency (2018). 'Tunisia's debt reached nearly 70% of GDP in 2017.' Available at: <https://www.ecofinagency.com/public-management/0503-38152-tunisia-s-public-debt-reached-nearly-70-of-gdp-in-2017>

<sup>187</sup> Albawaba.com (2018). 'Tunisia's debt races to danger zone, at 69.9 percent of GDP.' Available at: <https://www.albawaba.com/business/tunisia%E2%80%99s-debt-races-danger-zone-699-percent-gdp-1097098>

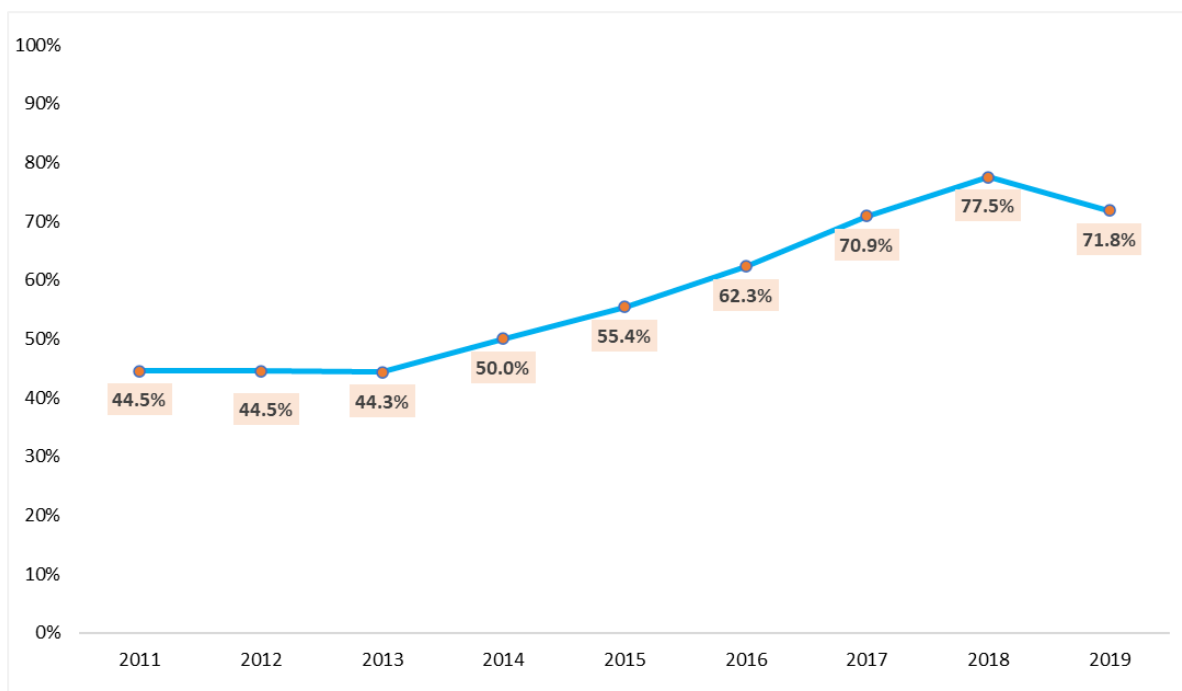
<sup>188</sup> Data from the Ministry of Finance.

<sup>189</sup> IMF (2019). Tunisia IMF Country Report, July 2019. No. 19/223.

<sup>190</sup> IMF country report for Tunisia

<sup>191</sup> Reuters (2021). 'Tunisia to issue up to \$3 billion debt and push reforms this year, finance minister says.' Available at: [reuters.com/article/tunisia-finance-minister/exclusive-tunisia-to-issue-up-to-3bln-debt-and-push-reforms-this-year-finance-minister-says-idUSL8N2K46V3?edition-redirect=uk](https://www.reuters.com/article/tunisia-finance-minister/exclusive-tunisia-to-issue-up-to-3bln-debt-and-push-reforms-this-year-finance-minister-says-idUSL8N2K46V3?edition-redirect=uk)

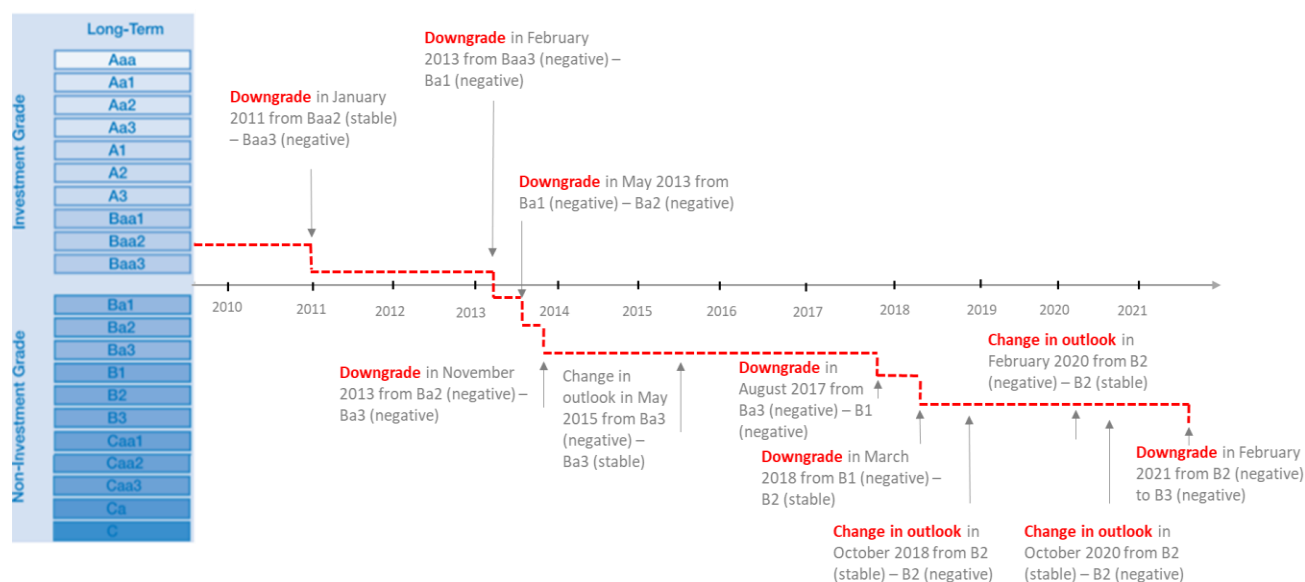
Figure 16. Public debt (as a percentage of GDP), 2011-2019



Note: gross public debt, which includes debt of state-owned enterprises, is calculated as a percentage of GDP. Source: IMF country reports for Tunisia

Large, persistent external and fiscal imbalances and ongoing political uncertainty led to multiple rating downgrades in the post-revolution period (see Figure 18).

Figure 17. Evaluation of Moody's credit rating for Tunisia, 2010-2020



Source: ICF, adapted from Trade Economics data and Moody's classification.

Box 11. Rationale for Moody's credit rating changes

In early 2011, the country's credit rating was cut by Moody's from Baa2 (stable) to Baa3

(negative), the lowest investment grade, predominantly due to the continuing unrest in the country.

A further downgrade was announced in early 2013: Moody's slashed Tunisia's debt rating to Ba1 (from Baa3) and placed the rating on review for further downgrade. That downgrade was prompted by increased political instability in the country and further delays in adopting the new constitution and organising elections, regarded as prerequisites for sustainable economic recovery<sup>192</sup>.

In 2016, the rating agency changed the outlook on Tunisia's Ba3 government issuer rating to negative from stable and affirmed the rating. The key drivers for changing the outlook to negative were the continuing delays towards fiscal consolidation (which led to a worsening fiscal deficit and debt/GDP trajectory), and increasing external vulnerabilities stemming from persistent current account imbalances and an increase in gross external debt<sup>193</sup>.

Moody's maintained a negative outlook for Tunisia and announced a further downgrade in the second half of 2017 to B1, amid continued structural deterioration in Tunisia's fiscal strength, persistent external imbalances, and reduced institutional strength and government effectiveness (as highlighted by the track record of delays in the agreed reform implementation program with the IMF)<sup>194</sup>.

The continued erosion in fiscal strength prompted the rating agency to downgrade the long-term issuer rating of the Government of Tunisia to B2 from B1 in March 2018<sup>195</sup>. Later in October 2018, the outlook was changed to negative from stable, reflecting the country's external vulnerability risks<sup>196</sup>.

Early in February 2020, Tunisia's outlook improved from negative to stable. However, in October 2020, the outlook changed back to negative as a consequence of the COVID-19 pandemic, confirming Tunisia's B2 rating<sup>197</sup>. More recently, in February 2021, Moody's again further downgraded Tunisia's long-term foreign and local currency debt rating, from B2 to B3<sup>198</sup>. The agency explained that the downgrade was due to weakening governance in the face of growing social constraints that increasingly hamper the government's ability to implement fiscal adjustment and public sector reforms aimed at reducing rising debt, which is expected to reach 90% of GDP this year.

### **5.3.1.7 Current account balance a major source of concern**

Tunisia's current account has consistently been in deficit. External payments have been affected since 2011 by (continued) social unrest and greater insecurity in the wake of the

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<sup>192</sup> AllAfrica.com (2013). 'Tunisia: Moody's downgrades Tunisia's debt rating one notch to Ba1.' Available at: <http://allafrica.com/stories/201303010409.html>

<sup>193</sup> Moody's website.

<sup>194</sup> Moody's website.

<sup>195</sup> [https://www.moodys.com/research/Moodys-downgrades-Tunisias-rating-to-B2-outlook-changed-to-stable--PR\\_380521](https://www.moodys.com/research/Moodys-downgrades-Tunisias-rating-to-B2-outlook-changed-to-stable--PR_380521)

<sup>196</sup> [https://www.moodys.com/research/Moodys-changes-the-outlook-on-Tunisias-rating-to-negative-affirms--PR\\_390149](https://www.moodys.com/research/Moodys-changes-the-outlook-on-Tunisias-rating-to-negative-affirms--PR_390149)

<sup>197</sup> [https://www.moodys.com/research/Moodys-confirms-Tunisias-B2-rating-changes-outlook-to-negative--PR\\_431419](https://www.moodys.com/research/Moodys-confirms-Tunisias-B2-rating-changes-outlook-to-negative--PR_431419)

<sup>198</sup> Atalayar (2021). 'Moody's downgrades Tunisia's credit rating.' Available at: <https://atalayar.com/en/content/moodys-downgrades-tunisias-credit-rating>

revolution, and by the Libya crisis<sup>199</sup>. Moreover, uncontrolled imports, especially of consumer goods, and a downturn in exportations in some sectors (such as extractive industries) have contributed to a growing trade deficit. The energy balance has also been largely in deficit in recent years due to declining volumes in domestic production, an increase in domestic consumption and a decrease in investment activity in the oil and gas exploration and development sectors. The longstanding surplus on the services balance has also fluctuated substantially since 2011, owing to the decline in tourist activity and transport after the 2015 terror attacks. Foreign direct investment has also been falling consistently, the main reason being a loss of investor appetite triggered, to a large extent, by the 2008 financial crisis, but also bureaucratic barriers, and continued political and economic instability. As such, as a result of the 2015 terrorist attacks and falling investor confidence, FDI decreased by about 0.5 percentage points of GDP between 2015 and 2016 and has yet to recover. Remittances have typically accounted for about 5.0 per cent of GDP in recent years<sup>200</sup>. The year 2016 closed with another record CAD. At 8.8% of GDP, the CAD was attributed to the further decline in tourism revenues (-4%)<sup>201</sup>. This further entailed a worsening effect of the trade deficit, which stood at 11.0 per cent of GDP as of 2016<sup>202</sup>, and a further erosion of Tunisia's foreign exchange reserves. By end-2016, these were worth approximately three months (89 days) of imports, the lowest level in 15 years<sup>203</sup>.

The trend persistent into 2017 and 2018. The external imbalances weighed heavily on foreign exchange reserves, which dropped to just 84 days of imports, presenting a potential threat for debt payments and imports of basic food and energy. Tunisia's CAD reached a historical record high of 11.2 per cent of GDP in 2018, following the deterioration of the trade balance deficit. Conversely, in 2019, a combination of increased tourism and labour income contributed to a decline of the CAD to 8.5 per cent of GDP<sup>204</sup>. This trend persisted into 2020. As such, the CAD has narrowed to 6.8 per cent of GDP, thanks to a 3.4 per cent drop in the trade deficit (in turn driven by import demand falling faster than exports and lower energy prices). The narrowing of the CAD has also helped to reduce pressure on the exchange rate and boost foreign exchange reserves, which climbed to 158 days of import cover at the end of 2020, up from 112 a year before<sup>205</sup>.

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<sup>199</sup> OECD. 2018. 'OECD Economic Surveys - Tunisia.' Available at: <https://www.oecd.org/economy/surveys/Tunisia-2018-OECD-economic-survey-overview.pdf>

<sup>200</sup> Country-Economy (2018). Remittances. Available at: <https://countryeconomy.com/demography/migration/remittance/tunisia>

<sup>201</sup> BNP Paribas (2017). 'Tunisia.' Available at: <http://economic-research.bnpparibas.com/Views/DisplayPublication.aspx?type=document&IdPdf=29823>

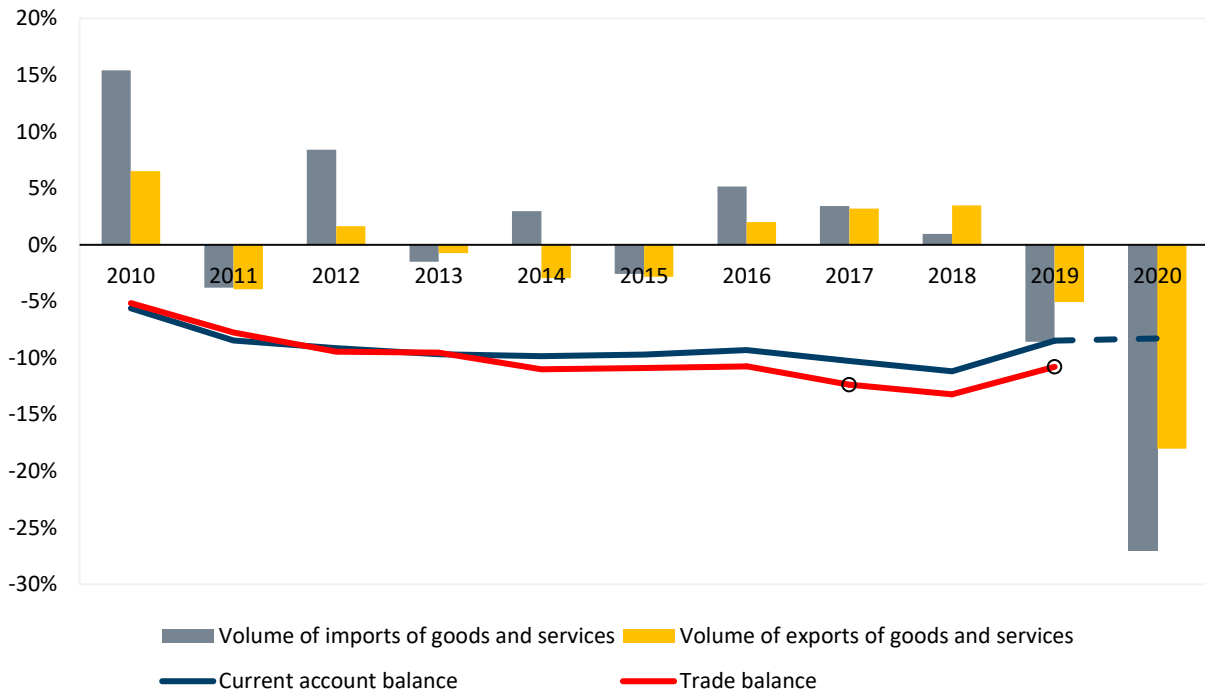
<sup>202</sup> IMF and WB data.

<sup>203</sup> BNP Paribas (2017).

<sup>204</sup> '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/>

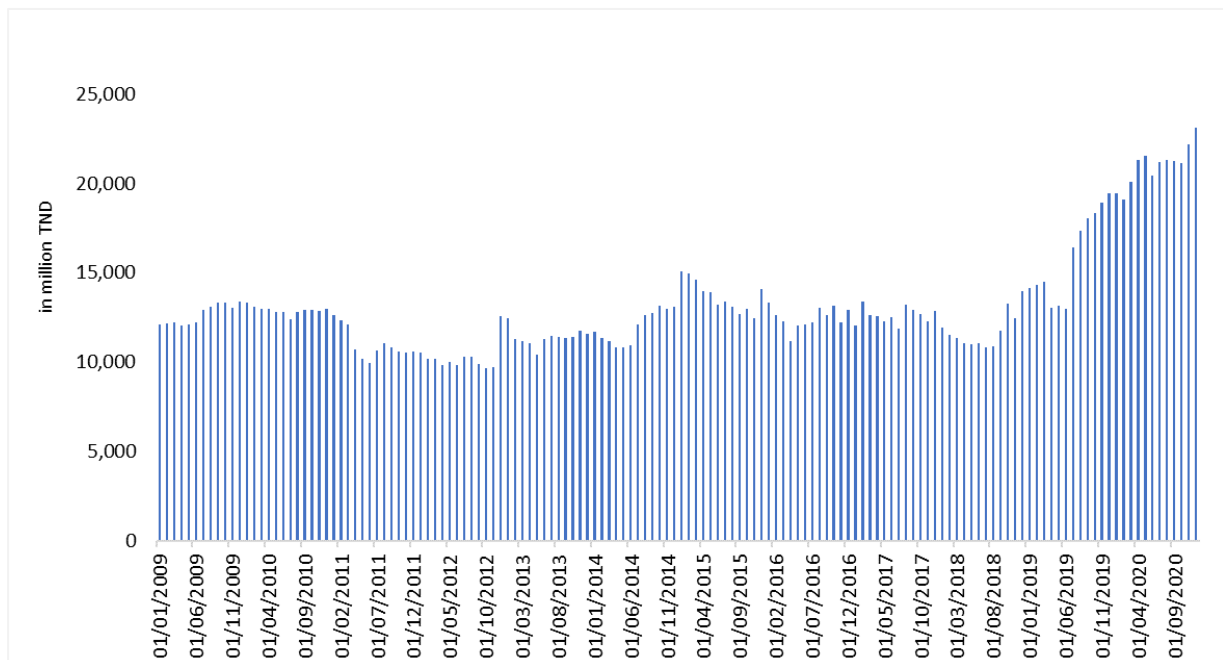
<sup>205</sup> IMF (2021). Available at: <https://www.imf.org/en/News/Articles/2021/01/25/pr2115-tunisia-imf-completes-article-iv-consultation-mission-with-tunisia>

Figure 18. Current account balance and its main components, 2010-2020



Source: IMF and WB data.

Figure 19. Evolution of foreign exchange reserves in Tunisia, 2009-2020



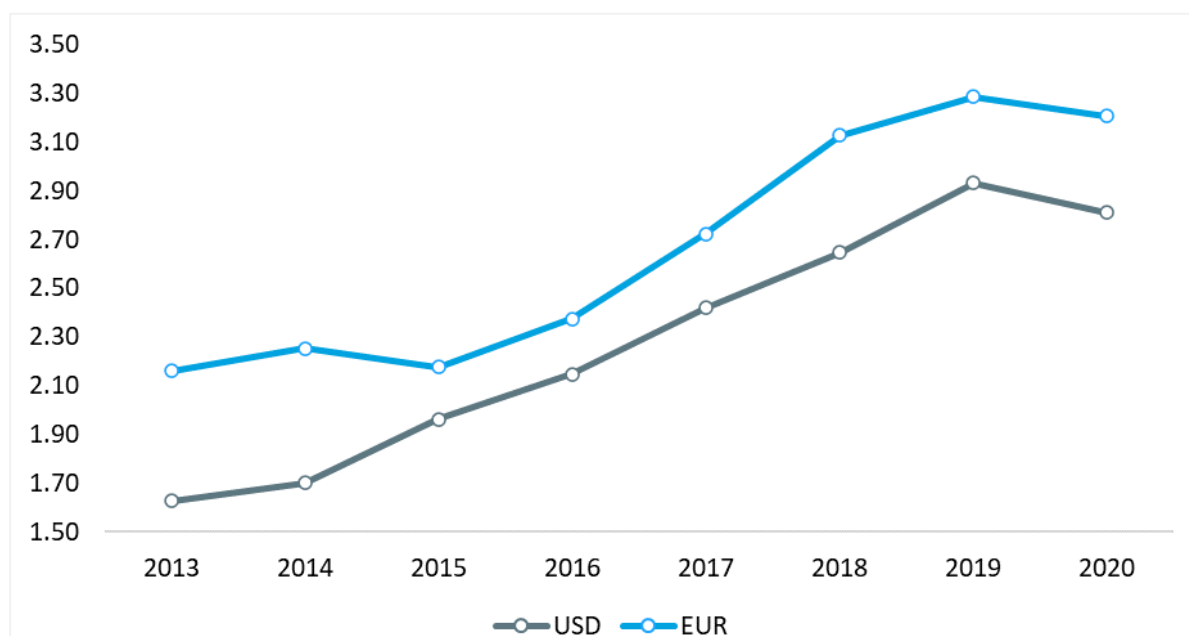
Source: World Bank.



### 5.3.1.8 Exchange rate

Since the 2011 revolution, the Tunisian dinar has been under strong pressure, depreciating steadily against the US dollar and the euro. Between December 2013 and December 2019, the Tunisian dinar lost over 50% against the euro (Figure 21).

Figure 20. Tunisian dinar vs euro and US dollar, December 2013-December 2020



Source: CBT.

The main factors underpinning this depreciation included the weak global macroeconomic context until 2015, external security-related shocks, widening twin deficits (fiscal deficit and CAD), and the policy of the CBT focused on limited interventions on the interbank market (that would have helped to reach greater flexibility of the Tunisian dinar). In 2020, the exchange rate remained stable, mainly due to lower overall price levels/inflation during the pandemic and the relaxation of exchange controls by the CBT<sup>206</sup>.

### 5.3.1.9 Banking sector remains key vulnerability

In the aftermath of the 2008 financial crisis and the 2011 revolution, the Tunisian banking sector faced significant challenges 'owing to a weak domestic economy, and from the legacy of the previous regime. In particular, loan quality, solvency, and profitability [...] deteriorated'<sup>207</sup>. Through an expansionary monetary policy, the CBT absorbed monetary disturbances after the revolution. Banks, however, have remained fragile and under-performing.

Today, Tunisia's banking sector is still regarded as 'a main vulnerability' for its economy, and a significant source of contingent liabilities for the government, as it continues to fall short of providing support to much needed growth.

State-owned banks with systemic importance (accounting for c.40% of the total banking assets and 30% of all deposits) still lag behind in their management practices, and

<sup>206</sup> EBRD (2021). 'The State strikes back. Country assessments: Tunisia.' Transition Report 2020-2021.

<sup>207</sup> IMF (2012). 'Tunisia: Financial System Stability Assessment.' Available at: <https://www.imf.org/external/pubs/ft/scr/2012/cr12241.pdf>

efficiencies of lending and transparency. NPLs, notably among public banks, continue to stand at elevated levels despite a slight reduction of their share in total loans to 13.4% in 2018 (down from 15.6% in 2016)<sup>208</sup>. In addition, banks' exposure to the tourism sector (vulnerable to various shocks) remains substantial<sup>209</sup>.

The COVID-19 pandemic is expected to hit Tunisian banks harder than their peers in the region, due to their already vulnerable position<sup>210</sup>. Plans to undertake structural reform, including recapitalisation and restructuring of the country's public banks, and plans to move the sector towards Basel III norms by 2020<sup>211</sup>, seem to have been negatively affected by the global health crisis<sup>212</sup>.

### **5.3.1.10 Step 2: Assessing the role and contribution of MFA II to observed outcomes**

This sub-section explores the extent of the impact of the MFA II operation on macroeconomic outcomes observed in Tunisia over the period 2017-2019 (i.e. during the implementation of the operation). This assessment is based on a qualitative approach and draws on evidence and insights gathered from:

- **Literature review**, which principally covers IMF reports, DG ECFIN documents relating to the operation (e.g. mission reports), and analytical reports produced by other donors and international organisations;
- **Initial discussions** with the Steering Group, notably during the kick-off and inception meetings;
- **Interviews** with key stakeholders;
- **Assessment of macroeconomic trends** over time and **key facts and data**;
- **Brainstorming session** on **26 April 2021** that elicited views from local experts;
- Results of the **expert survey**.

### **5.3.1.11 Presentation of counterfactual alternatives**

For the possible counterfactual alternatives (i.e. what might have happened in the absence of MFA financing), the following three scenarios are considered:

- Scenario 1: No disbursement of the first MFA II tranche of EUR 200 million in 2017 and plausible alternatives.
- Scenario 2: No disbursement of the second and third MFA II tranches totalling to EUR 300 million in 2019 and plausible alternatives.
- Scenario 3: No MFA II and no IMF EFF operation.

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<sup>208</sup> IMF (2020). Country Report, April.

<sup>209</sup> EBRD (2020). 'Tunisia: assessing progress and challenges in unlocking the private sector's potential and developing a sustainable market economy.' Diagnostic paper.

<sup>210</sup> S&P Global (2021). 'True picture of North African and Jordanian banks' creditworthiness will emerge in 2021'. Available at <https://www.spglobal.com/ratings/en/research/articles/210201-true-picture-of-north-african-and-jordanian-banks-creditworthiness-will-emerge-in-2021-11819228>

<sup>211</sup> Oxford Business Group (2017). 'Recent reforms shore up Tunisia's banking sector.' Available at: <https://oxfordbusinessgroup.com/overview/top-down-recent-reforms-are-putting-sector-firmer-footing>

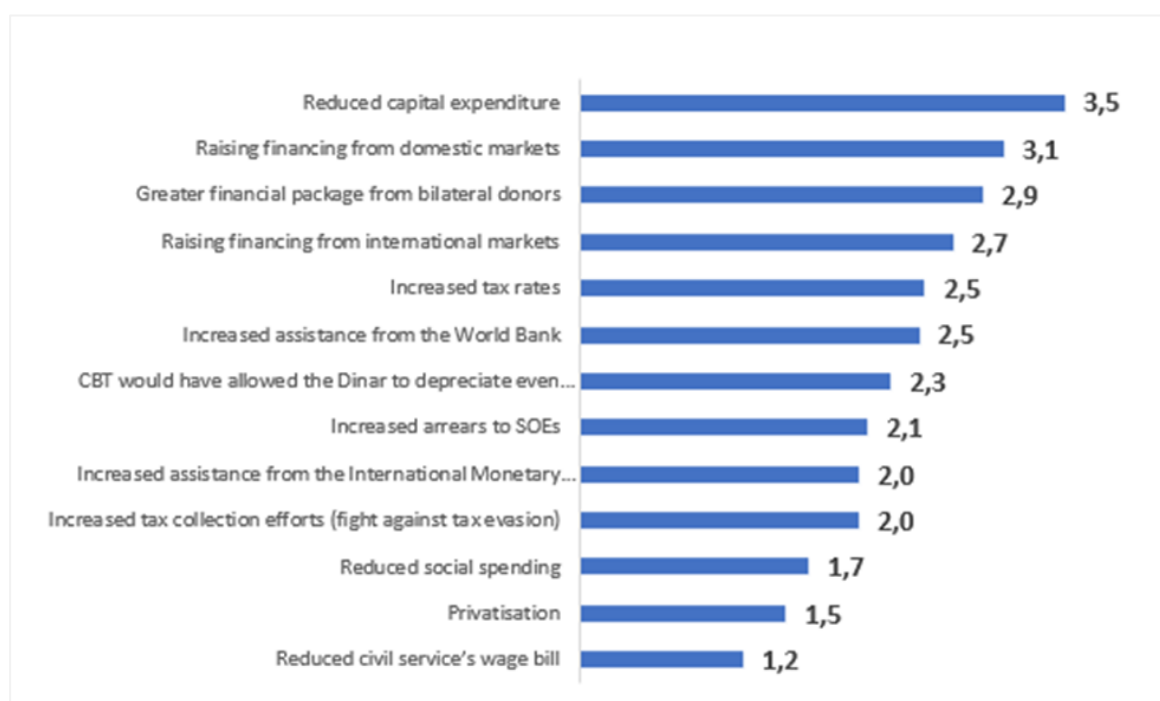
<sup>212</sup> S&P Global (2021). True picture of North African and Jordanian banks' creditworthiness will emerge in 2021'. Available at <https://www.spglobal.com/ratings/en/research/articles/210201-true-picture-of-north-african-and-jordanian-banks-creditworthiness-will-emerge-in-2021-11819228>

Under each scenario, plausible (counterfactual) options were considered and are discussed in the sub-sections below. As the options are largely the same for Scenario 1 and Scenario 2<sup>213</sup>, a joint discussion is provided, followed by a separate discussion on options under Scenario 3.

**Scenario 1 ('no MFA in 2017') and Scenario 2 ('no MFA in 2019')**

In Figure 22 and Figure 23, options are ranked and scored based on their plausibility under each scenario.

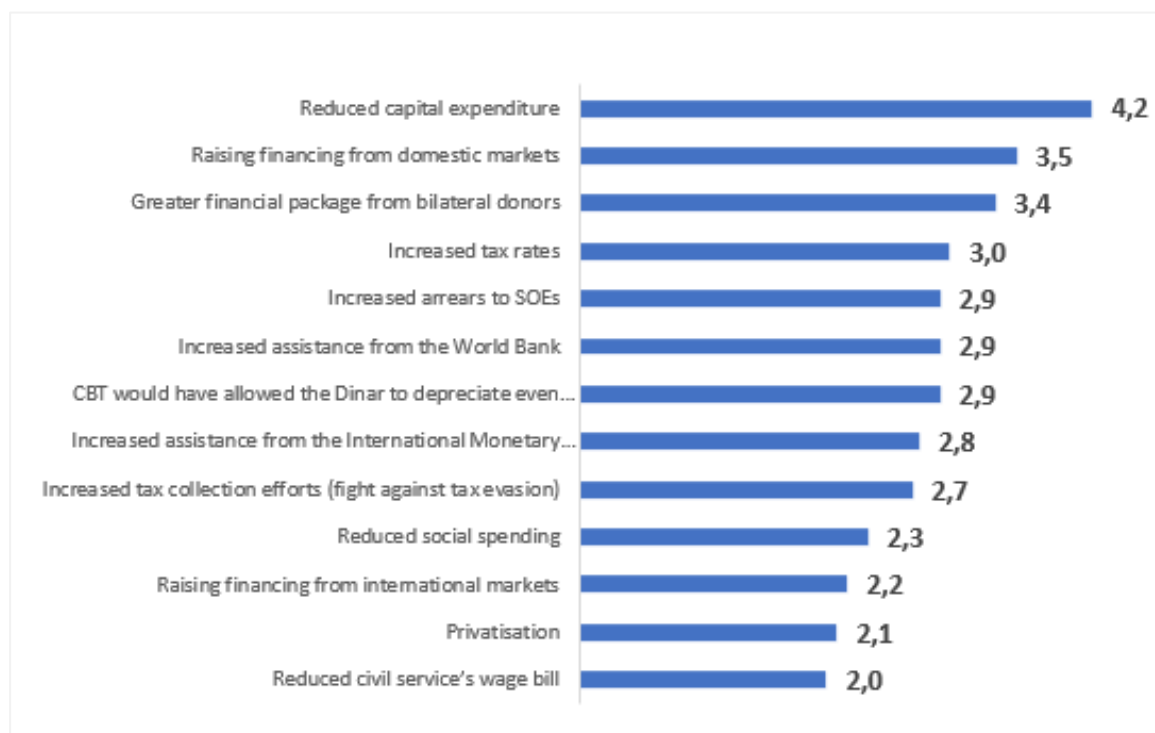
*Figure 21. Alternatives Tunisia could have taken in the absence of the first instalment of MFA II in 2017 – with 0= "not at all plausible" to 5 = "very much plausible"*



Base: n=37.

<sup>213</sup> Respondents generally agreed that actions that would have been undertaken in the absence of the MFA disbursements would have been the same in 2017 and 2019.

Figure 22. Alternatives Tunisia could have taken in the absence of the second instalment of MFA II in 2019 – with 0= “not at all plausible” to 5 = “very much plausible”



Base: n=37.

#### Option 1: Domestic and international financial markets

The option of resorting to international financial markets was still possible but not judged among the most plausible options, had MFA II not been deployed in these years (especially in 2019). Local experts indicated that the IMF would have helped to ‘open the door’ to international financing, thereby allowing Tunisia to fill the financing gap that would have existed had MFA not been disbursed in 2017 and 2019. Tunisia did turn to the Eurobond market over the period, raising a total of EUR 850 million, EUR 500 million and EUR 700 million in 2017, 2018 and 2019, respectively<sup>214</sup>. In the absence of the MFA, the possibility of raising (additional) international financing could therefore be considered plausible. However, it is worth noting that with a persistent depreciation of the Tunisian dinar, rampant inflation, sustained macroeconomic imbalances, and eight consecutive downgrades in ratings, the extent to which Tunisia could have (solely and extensively) relied on international finance would have been limited. The interest rates oscillated between 5.625% and 6.75%.

Survey respondents generally felt that domestic financing could have been a more plausible alternative to MFA II. However, an important concern raised was the potential for ‘crowding out’, i.e. rising public sector borrowing could have driven up interest rates and driven down private sector investment. In addition, most survey respondents praised the concessional terms of the MFA II, which could not have been matched by other forms

<sup>214</sup> leaders.com (2019). ‘Sortie réussie de la Tunisie sur le marché financier international : 700 millions d’euros, 7 ans de maturité et un coupon de 6.375%.’ Available at: <https://www.leaders.com.tn/article/27478-sortie-reussie-de-la-tunisie-sur-le-marche-financier-international-700-millions-d-euros-7-ans-de-maturite-et-un-coupon-de-6-375>

of financing, including domestic financing. With greater reliance on non-concessional (financial) support (e.g. domestic/ international financing), the ability for Tunisia to service its debt would have been affected.

Overall, access to financial markets, especially domestic markets, in either 2017 or 2019 would have been plausible options for Tunisia (in the absence of MFA II).

#### Option 2: Fiscal policy adjustments

##### **Capital spending/expenditure**

Survey respondents considered a reduction in capital expenditure one of the most plausible alternatives. Capital expenditure has been on an upward trend since the mid-2010s, although increasing at a slower and decreasing rate between 2017 and 2019. Over this period, capital expenditure grew by an average of 4.0% every year, compared to a yearly average of almost 9.0% between 2014 and 2016. In the absence of MFA II, it safely can be assumed that this downward trend in capital expenditure would have been more drastic..

##### **Social spending**

This option was regarded as potentially feasible but certainly not a preferred option (for socio-political reasons). In 2017, rising social unrest and tensions between workers' unions and the government meant that the authorities could not adopt various fiscal and social measures contained in the IMF and WB assistance programmes. The IMF, for instance, recommended a pay freeze in the public sector, but the unfavourable social climate prevented meeting that conditionality<sup>215</sup>. The Tunisian government did not have much fiscal space, owing to a large share of the budget (already) allocated to reinforcing national security (especially after the 2015 attacks).

##### **Taxation**

The Tunisian government was more successful at increasing revenues during the 2017-2019 period. VAT rates, for instance, were increased by one percentage point in January 2018, while reforms were in place to fight tax evasion. However, there was little room to upscale these measures and drive additional revenues. Revenue growth, although positive, was slow and limited owing to the 'low-growth' environment prevailing during the 2017-2019 period. Revenue-raising measures would thus have been insufficient to close the financing gap.

The survey indicated additional fiscal measures, including: privatisation/sale of government (non-controlling/ minority) stake in certain public sector enterprises, reduction in state subsidies, and a reduction in public sector workforce. However, these were not unanimously proposed by survey respondents and are therefore not considered feasible options.

##### **Final remarks**

Overall, with the exception of reduced capital expenditure, fiscal policy adjustments would have probably met with stiff opposition in both 2017 and 2019. It is unlikely that they would have been considered plausible alternatives in the absence of MFA II.

#### Option 3: Monetary policy adjustments

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<sup>215</sup> Wages were only increased in nominal, rather than real, terms during the period under consideration, given the continuous rise in inflation.

The plausibility of a further depreciation of the Tunisian dinar was considered, although this option was ranked among the least plausible alternatives by survey respondents and local experts.

The CBT had been pursuing a flexible exchange rate regime for a long time, enabling the Tunisian dinar to adjust to foreign exchange market movements, and could have allowed it to depreciate further in both 2017 and 2019. When a currency depreciates, the prices of domestically-produced goods decline relative to international prices. Exporting firms thus become more competitive and exports increase. If export growth is significant, production and employment expand, and the economy accelerates. To some extent, therefore, depreciation can help to stimulate the economy. For Tunisia, exchange rate flexibility could have improved its current account position and its international reserves. It could have also fostered greater economic activity, growth and revenue, and helped to alleviate the country's financing needs.

However, prolonged depreciation of Tunisia's national currency would not have been sustainable over the longer term and would likely have proved counterproductive, notably by fuelling larger trade deficits and further current account imbalances. The cost of imports would also have gone up, contributing to additional inflation pressures. Inflation was already up and rising by the mid-2010s. It rose from 3.7% in 2016 to 5.3% and (close to) 7.0% in 2017 and 2019, respectively. Given the prevailing economic climate in those years, it seems unlikely that Tunisia would have relied on further depreciation of its currency.

#### Option 4: Bilateral/multilateral loans

The consensus among local experts and survey respondents was that multilateral financing would not have been a plausible option. It had been difficult for Tunisia and the IMF to find common ground during negotiations of reforms that would accompany IMF financing. Further rounds of assistance from the IMF would possibly have resulted in additional reforms, which the Tunisian government would likely have wanted to avoid. Many survey respondents also pointed to a lack of reform ownership and/or slow reform progress on the part of Tunisian authorities, which could have weakened prospects for additional financing from other multilateral donors, such as the WB. Figure 8 shows that the donor community was already (widely) supporting Tunisia with budgetary support from 2018 onwards. By 2019, financing from new/additional bilateral/ multilateral donors (excluding support from the EU, IMF and the WB) comprised almost 55.0% of overall budgetary support received. In addition, a number of Tunisia's bilateral partners and some international financial institutions, such as the WB, had reached/ approached their lending limits for Tunisia, significantly reducing their ability to deploy additional financing.

Similarly, although the Tunisian government could have approached bilateral donor countries, there is no certainty that this would have resulted in additional financing. Like Jordan, Tunisia had been relying on assistance from many countries, including several Arab countries (e.g. Saudi Arabia and Qatar, in the form of private placements). These countries were nonetheless subject to severe fluctuations owing to changing oil prices during the period 2017-2019. As foreign aid would have been dependent on growth in these oil-producing countries (in turn dependent on oil exports/revenue), support to Tunisia would have become increasingly unpredictable. In the absence of the MFA disbursements in either 2017 or 2019, there is no certainty that bilateral donors would have been able to offer assistance of a similar magnitude.

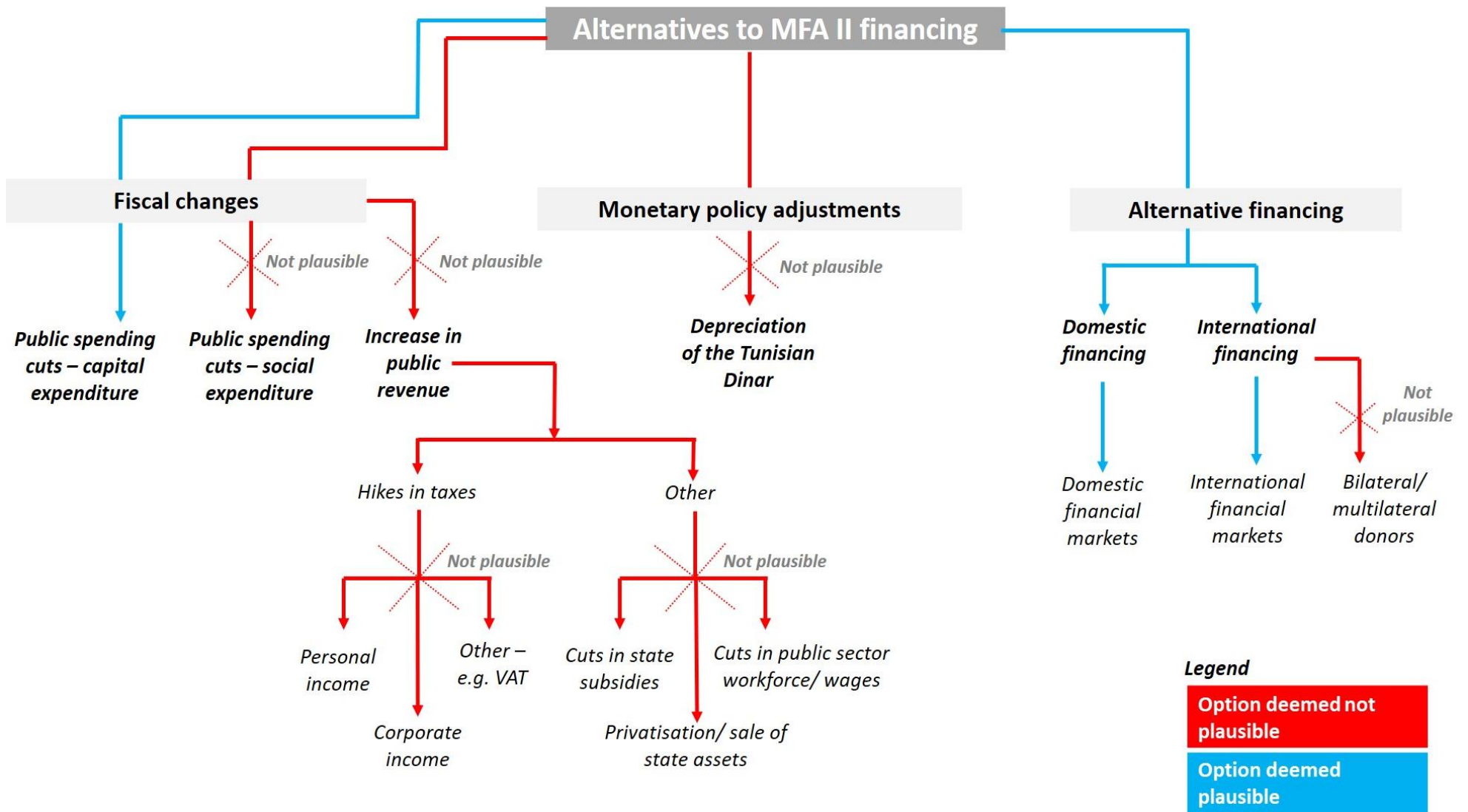
#### Conclusions on Scenario 1 and Scenario 2

The most plausible options, had the MFA II financing not been made available, would have been:

- Domestic financing; and
- Reduction in government capital spending/expenditure.

A summary of all possible scenarios available to Tunisia in the absence of MFA II financing (Scenarios 1 and 2) are presented in Figure 24.

Figure 23. Summary – alternative scenarios to MFA II financing had it not been available to Tunisia (but with IMF support continuing)





### **Scenario 3 ('no MFA II and no IMF EFF')**

According to local experts, had the combined assistance not been deployed, it would have resulted in an important financing gap for Tunisia. Combined, the MFA II and IMF support represented €1.9 billion over 2016-19, but the gap could have been higher, as other donors might have followed suit. Local experts observed that Tunisia's access to external financing would have 'shut down completely', as access to international markets is generally conditional on IMF support.

Without the IMF programme, the likelihood of a sovereign default would have been quite high, according to survey respondents. But according to our local experts and looking at what happened in 2020, other financing options would likely have been adopted instead.

Local experts were probed on the possibility of the Tunisian authorities seeking direct financing from the CBT (as was the case in 2020). They considered this option to be a measure of last resort, which might have been taken only under Scenario 3 (when the IMF programme was off-track).

Overall, pursuing a single alternative – whether fiscal policy adjustments or bilateral/multilateral assistance – was not considered adequate. Most likely, the Tunisian authorities would have considered a mix of options, involving:

- Domestic financing;
- Additional cost-reducing public sector reforms;
- Further reductions in public expenditure (e.g. infrastructure projects);
- Possible further depreciation of the Tunisian dinar.

### **5.3.2 Part 2: Assessment of the effectiveness of MFA conditionality**

The operation was fully disbursed and all conditions (except one, on the suppression of the VAT middle rate) were met. In the narrow sense, therefore, the measures, as defined by the text of the conditions, were implemented. Key progress was made in some areas, e.g. legislative, with the parliamentary adoption of key laws (external audit, social safety net), and technical, with the creation of a scoring model to target vulnerable households (social safety net).

In other areas (tax reforms, investment climate), progress was more fragmented. Positive aspects can be underlined: the VAT-related measures did not have adverse social impacts; consultation processes are now well in place to ensure line ministries' adherence to the simplification of authorisations. However, it is not always easy to see any real willingness to improve the system. For instance, three VAT rates still exist – or four, counting zero-rated goods and services, despite the initial commitment to the suppression of the middle rate. A new structure has also been added to the institutional set-up for investment promotion but the expected streamlining among pre-existing institutions did not take place, rendering the system even more complex than it was originally.

Even in areas where there was significant progress, tangible impacts have yet to materialise, as illustrated by concerns with the lack of follow-up on the CdC recommendations, or criticisms that social programmes are not better targeted, with the scoring model, to date, only used to add new beneficiaries. This shows the medium-term challenges associated with institutional change (going beyond MFA) even where conditions are effective (i.e. produced positive developments in line with desired results).

Taken together, this explains why, stakeholders and experts often complain about the speed of change, lack of follow-up on implementation, enforcement of existing legislation or tangible progress on the ground, which together cause impatience, discredit and frustration within Tunisia and for its partners. This particular context can be usefully taken into account when designing MFA conditions (e.g. focusing on concrete measures with immediate impacts, or measures that follow-up on earlier steps). Such types of conditions were included in MFA II, although not all were necessarily well chosen. For instance, in relation to unemployment, which remains a priority concern in Tunisia, one of the two MFA conditions encouraged the roll out of the FORSATI programme. This programme could however not be sustained beyond the scope of MFA II, due to the lack of available funding. The EU did not have other instruments supporting the deployment of FORSATI.

The boxes below provide key summary findings at reform area level. A detailed assessment of corresponding individual conditions using the Study's analytical framework is included in Annex 8.

#### **Box 12. PFM**

There was progress in a number of PFM-related aspects<sup>216</sup> over the lifetime of MFA II, in particular in the two fields targeted by the MFA conditions.

In the external audit field, the organic law on the CdC was finally adopted in April 2019, significantly reinforcing the independence of the CdC, even if some challenges remain (need for even greater autonomy and need to address the lack of resources).

In the area of e-public procurement, the use of TUNEPS is now mandatory for all buyers (since September 2019)<sup>217</sup>. Access to the system for small and

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<sup>216</sup> There is no recent Public Expenditure and Financial Accountability (PEFA) assessment for Tunisia that would comprehensive tracking of progress in PFM reform. The latest assessment dates from 2015.

medium-sized enterprises (SMEs) is now simplified thanks to the e-shopping mall functionality, which works as a virtual market place and allows for simplified procedures for small value procurement online. The effective uptake of the platform by all buyers remains uneven, however, with a particular lag at regional level.

In other areas, progress was made but challenges remain. Regarding budget transparency for instance, significant improvements were achieved between 2012 and 2015<sup>218</sup>. Reports still point towards significant risks related to contingent liabilities (in relation to extra-budgetary funds, public enterprises and public agencies)<sup>219</sup>. The Organic Budget Law adopted in January 2019, and the MFA operation approved in the aftermath of COVID-19, should help in that regard.

#### Box 13. Civil service

Tunisia's wage bill to GDP ratio increased in recent years, reaching 17.4% in 2020<sup>220</sup>. In absolute terms, the wage bill also increased. The average annual growth rate of the wage bill (excluding state-owned enterprises or SOEs) was 9.7% for the period 2015-2019.

Attempts to contain spending were only partly implemented, due to strong opposition, security needs in light of terrorism threats, and more recently (post MFA II) health sector needs in light of the COVID-19 pandemic. Further hiring pushes and wage increases were negotiated over the period 2017-2019 and since, but wage increases contributed most to the increase in the wage bill<sup>221</sup>, surpassing inflation.

The IMF and other EU programmes (budget support programmes and twinning projects) tried to push the reform of the sector in parallel to the MFA II condition. Despite being only a first preparatory step, the inclusion of the requirement to adopt the civil service reform strategy constitutes an example where the EU used its political leverage to signal the importance of a particular reform area.

#### Box 14. Labour market

Numerous active labour market schemes are deployed by the Tunisian government and absorb substantial funds. The unemployment rate remains stubbornly high, however.

There has been no comprehensive evaluation of the ALMP schemes in general nor of wage subsidy schemes such as KARAMA. Several studies provide some indications, most notably promising results in employment outcomes - although the wider questions of selection bias/windfall effects and cost-effectiveness remain unclear.

A first assessment carried out by the national employment agency on the

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<sup>217</sup> OECD (2020). Improving the E-procurement environment in Tunisia: supporting vulnerable groups in gaining better access to TUNEPS. Paris.

<sup>218</sup> Transparency International (2021). Exploring budget transparency in the Middle East and North Africa: a study of Jordan, Lebanon, Morocco and Tunisia.

<sup>219</sup> IMF Country Report No. 21/44.

<sup>220</sup> Ministry of Finance data.

<sup>221</sup> IMF Country Report No. 21/44.

employment outcomes for beneficiaries of KARAMA found that 35% of beneficiaries were still employed by the incentivised firm after two years (while outcomes for the remaining 65% were unclear, prompting a more comprehensive impact evaluation in 2021, in collaboration with the ILO). An earlier study (2013) looked at the SIVP (now the CIVP) in greater detail. This programme is very similar to KARAMA, except that the conditions are less generous and the unemployed graduates are eligible from six months of unemployment (two years for KARAMA). It showed that SIVP participation has a positive and significant impact on the likelihood of being employed<sup>222</sup>. Some selection bias and windfall effects could not be ruled out: obtaining an employment contract at the end of the SIVP experience may reflect the abilities of the beneficiary, rather than the effects of the programme, and SIVP contracts may to some extent substitute non-subsidised employment (with companies replacing one intern with another, in a position that should have been filled by a permanent employee). The cost of job creation by SIVP was estimated to be quite high (TND 18,000).

In relation to personalised job search schemes such as FORSATI, impacts are expected to be positive for those participating but have not been studied in-depth. The main problem is the lack of funding available. The assessment of the scheme was positive and the intention was to renew it, but the necessary resources could not be secured.

Overall, the added value of MFA conditions linked to the implementation of ALMP schemes seems positive but rather limited in terms of substance, as what is needed for the deployment of those programmes is funding, systems for an efficient outreach, and - in the case of personalised job search schemes - training/technical assistance for the national employment agency.

#### Box 15. Tax reforms

Over the period of MFA II implementation, Tunisia's efforts to mobilise more tax revenues paid off. Tax policy and administration measures are considered to be among the main factors driving the reduction in the country's budget deficit (from 6.1% of GDP in 2016 to 3.9% in 2019)<sup>223</sup>.

In relation to VAT reform specifically, despite the ongoing middle rate, a number of advances were noted, including the reduction in exemptions and the rationalisation of reduced rates.

Efforts remain necessary to improve the economic neutrality of the tax and simplify the system for refunding VAT credits<sup>224</sup>. More generally, the insufficient progressiveness of the Tunisian tax system also remains an issue: tax revenues still predominantly derive from indirect taxes (56%), and changes have been rather ad-hoc, enacted piecemeal through successive Budget Laws. Despite the broad discussion initiated prior to the adoption of the 2016 tax reform strategy, no comprehensive tax reform has been implemented.

The MFA condition was fully aligned with the authorities' plans and was intended to reinforce the IMF message. A closer look, however, suggests that the formulation of the condition was not fully clear. Suppressing the middle rate would mean shifting products and services - including sensitive ones - to lower

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<sup>222</sup> Broecke, S. (2013). 'Tackling graduate unemployment in North Africa through employment subsidies: A look at the SIVP programme in Tunisia'. *IZA Journal of Labour Policy*. Available at: <https://doi.org/10.1186/2193-9004-2-9>

<sup>223</sup> OECD (2021). Strengthening tax capacity to increase domestic resources in Tunisia.

<sup>224</sup> USAID (2019). Fiscal reform for a strong Tunisia. Short-Term Technical Assistance Report.

or higher rates, and the EU had only limited involvement in VAT policy discussions, being better acquainted with other aspects of tax reform (e.g. *regime forfaitaire* under MFA I, tax administration through its budget support programmes).

#### Box 16. Financial sector

The financial sector has seen progress in recent years, despite some ongoing vulnerabilities that may be aggravated by the COVID-19 crisis (e.g. in relation to the high exposure to troubled SOEs or high-pressure sectors, such as tourism).

The launch of the guarantee fund for deposits constituted an important step for the protection of bank clients and more generally for the stability of the Tunisian financial system. It started operating only recently, in August 2020, and covers almost all of the 29 banks operating in Tunisia<sup>225</sup>. The fund benefits from ongoing technical assistance (notably from KfW) to refine its rules and procedures, as needed.

#### Box 17. Social protection

There was progress in social safety net reform over the lifetime of MFA II. Key policy decisions setting criteria to be used to define vulnerable households were taken when adopting the Amen Law in January 2019 and the subsequent implementing decrees. Enrolment into the Amen Social Registry progressed further, although numbers fell short of the initial quantitative target (450,000 households have accurate identification data against an initial target of 900,000). The original target was unrealistic and the COVID-19 crisis has now created new logistical challenges, slowing the completion of social surveys and field visits by social workers.

There is a lack of recent data to measure improvements in actual targeting of existing social programmes, with few signs that interregional targeting may have improved (see Social Impact Analysis in Annex 12). Given the decisions made, the resulting improvements to actual targeting on the ground are necessarily limited. The new scoring model to identify and classify households based on life conditions is now operational, and tests on its ability to correctly identify the poor are satisfactory, according to the CRES. It will be used to identify the 50,000 households newly eligible for the PNAFN, as a response to the COVID-19 crisis. The improved targeting will not be as drastic, as the current PNAFN beneficiaries (260,000 households or 8% of the population) will continue to benefit from the programme even if they are no longer eligible under the new scoring model. There is no plan to exclude current beneficiaries from the programmes, for social and political reasons.

In relation to the wider aspects of social protection reform, the Action Plan was adopted as requested by the MFA II condition, although its implementation has been limited (discussions or feasibility studies are largely ongoing). The design of the response to the COVID-19 crisis gives a new impetus to social protection reform (e.g. digitalisation, e-payment solutions).

The role of the MFA is generally viewed positively (pushing for, or adherence to, deadlines), with technical assistance (most notably from the WB) highly valued,

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<sup>225</sup> EBRD transition report 2020/21.

due to the lack of existing resources.

#### Box 18. Investment/business climate

Progress was made towards eliminating investment authorisations across various sectors (as intended by MFA II), albeit at a very slow pace. The drafting process for the so-called *cahiers des charges* (replacing the system of authorisations) was very lengthy due to coordination issues, a certain degree of resistance, lack of buy-in from government officials and lack of preparedness.

More generally, there is little evidence that the 'Silence means consent principle' was applied, despite a 2018 sensitisation campaign to better communicate the changes in the approach to ministry officials and prospective investors.

In terms of wider/other impacts, there is no concrete evidence of a significant, positive change in Tunisia's business environment and/or (foreign) investment flows. Various stakeholders have raised concerns about the relatively poor performance of the newly-established bodies, notably the Tunisian Investment Authority, which was added to the existing institutional set up instead of replacing old structures, creating inefficiencies through overlapping mandates and coordination issues. Currently, Tunisia ranks low in terms of 'ease of doing business' and substantial bureaucratic barriers to investment persist. Net FDI inflows are among the lowest in the MENA region - at 2.0% of GDP. Persistent governmental instability and, more recently, the COVID-19 pandemic have amplified existing investment challenges in Tunisia. The country's vulnerability to terrorism is also high, dampening investor confidence.

Representatives from the private sector have called for MFA conditions that can simplify procedures and reduce the administrative barriers associated with investment, such as greater digitalisation.

#### Box 19. Tourism

Conclusive evidence on the effectiveness of the Euro-Mediterranean Agreement is not available. The proposed agreement is yet to be signed by the EU (the Council gave the go-ahead for the signing in June 2021 and signature is planned for autumn 2021)<sup>226</sup>.

In general, however, the stakeholders consulted welcomed the idea of a more liberalised air transport market in Tunisia on the basis that it would foster new tourism opportunities and stimulate growth in ancillary sectors in the longer term. More generally, a comprehensive agreement would also promote further integration between the EU and Tunisia. Other Mediterranean neighbours (Morocco, Israel and Jordan) have also signed such an agreement with the EU, the effects of which are considered very positive.

In the immediate term, however, the liberalisation may lead to a shock that proves hard to absorb for TunisAir, or it may fuel social discontent and generate acceptance issues.

Some resistance has been observed among certain actors, such as trade unions in the airline industry, which 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.

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<sup>226</sup> [International aviation: Council greenlights signing of major agreements with four countries - Consilium \(europa.eu\)](https://www.consilium.europa.eu/en/press/press-releases/2021/06/21-eu-tunisia-air-agreement/)

## 5.4 Social Impact Analysis

The overarching aim of the SIA was to use evidence from social indicators and primary data to assess the impact of MFA II on the social situation. The analysis considered both *direct impacts* of policies specified in the MFA conditionalities and *indirect impacts* of wider macroeconomic stability across a range of social indicators. The full findings are available in Annex 12.

Key findings of the SIA in Tunisia include:

- **Improvements to monitoring/administration systems.** Evidence from mission statements and compliance reports suggests that Tunisian authorities have made notable improvements in bolstering systems used to monitor and administer social protection. Such improvements include: substantial increases in the coverage of social identifiers (used in social security registries); development of links between social security systems and healthcare registries; and alignment/harmonisation of various social security structures (e.g. National Health Insurance Fund (CNAM), National Social Security Fund (CNSS), National Pension and Social Security Fund (CNRPS)). There was no evidence of social impacts during the MFA operation period, due to the indirect and lagging relationship between administrative capacity and social outcomes (such as targeting). However, longer term improvements in targeting may stem from greater administrative/monitoring capacity.
- **Increases in PNAFN monthly disbursements and coverage.** As part of the new legislative framework (specified in MFA conditionalities), monthly payments of the major social safety net (PNAFN) were increased from TND 150 to TND 180. While this constituted a positive change, it was outweighed by increases in the cost of living, thus real (inflation-adjusted) PNAFN monthly payments were lower in 2019 (start of TND 180 monthly payment) than they were in 2015 (start of TND 150 monthly payment). The coverage of PNAFN increased between 2016 and 2020<sup>227</sup>, providing social security payments to an additional 23,000 households.
- **Tentative evidence of improved targeting.** No data were available on PNAFN disbursements by household income. However, regional disparities in poverty and PNAFN disbursements were investigated to assess evidence of changes to interregional targeting. A positive correlation was found between a region's initial poverty level and the change in the number of PNAFN recipients. This suggests that gaps in interregional PNAFN targeting narrowed between 2016 and 2020). For now, however, the new scoring model developed to better target the poor is only used to identify new beneficiaries (in the context of the COVID-19 crisis response). Existing beneficiaries who are no longer eligible based on the new scoring model continue to benefit from the social programmes.
- **Limited (social) impacts of tax reform.** Tax reform, as specified by MFA conditionalities, was administered through Budget Laws 2017 and 2018, increasing sales tax in a number of areas, and phasing out the intermediate 12% sales tax band. The social impacts on Tunisian citizens were relatively small, with no evidence of damage to the overall progressivity of the (sales) tax system. This was principally due to the products and services targeted. Recreational activities, tourism and inputs to the fishing industry were all subject to increases in sales tax, and all corresponded to consumer items typically making up a smaller share of poorer households' budgets. The selected agricultural and food products that were initially exempt from VAT remained exempt after the introduction of the Budget Laws. This was important because foodstuffs make up a large share of the budgets of poorer households. A key uncertainty is the effect of increasing sales taxes on business purchases (e.g. land for property development, materials/semi-finished goods, which feed into energy and crafts sectors). Depending on the

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<sup>227</sup> The data on PNAFN recipients were not available for 2017 and 2019, therefore 2016-2020 was used as an estimate for changes over the period of MFA operations.

extent to which these costs are passed on to consumers, this could affect some key consumer items that make up a large share of poorer households' budgets (such as housing or utilities).

- **Effects of ALMPs.** Evidence reviewed in the SIA (including interviews with the national employment agency) suggests that ALMPs likely played an important role in addressing labour market issues. More specifically, FORSATI helped to address youth unemployment through training, work placements and support, and *Contrat Dignité* helped to address long-term unemployment, bringing around 50,000 individuals out of long-term unemployment over 2017-2019 (at least 35% of whom remained in employment after two years). Impacts were not sustained over time in the case of FORSATI (no new beneficiaries could be enrolled) as the programme was discontinued due to lack of available funding. Impacts were not clearly discernible at the macroeconomic level, owing to the relative magnitude of these programmes relative to unemployment.
- **Modest impacts associated with no first-tranche MFA (Alternative 1).** The likely social impacts of Alternative 1 were modest. This is because the assumed alternative sources of finance would not involve cuts to essential services or pensions. While increased support from international donors and increased international debt issuances could have been feasible, our assessment concludes that the financing gap would most likely have been met by cuts to public investment and increased domestic borrowing. These changes might lead to negative impacts on Tunisian incomes and the cost of living, however, because the financing gap is relatively small, these impacts would be modest. Tapping into other sources of finance, such as international support, borrowing on international markets or increasing tax revenues, might have reduced some of these negative impacts, depending on the amounts raised.
- **Negative impacts stemming from the absence of second and third tranche conditionalities and funding (Alternative 2).** Given that second and third tranche MFA support required adherence to conditionalities, it is possible that Alternative 2 would have implied slower and less thorough reform of social safety nets, tax policy and active labour policy. This could have impacted the social situation in Tunisia negatively, for example, through weaker social security systems and long-term unemployment. However, results from the expert survey in respect of the contribution of the conditionalities to these reforms were inconclusive. It is very likely that, even without the MFA conditionalities, some components of these reforms would have occurred. While increased support from international donors and increased international debt issuances could have been feasible, the absence of budgetary support (provided by MFA) would have likely been met by cuts to public investment and increases in domestic borrowing. In a similar vein to Alternative 1, this would have negatively affected Tunisian households through higher costs of living and lost income (stemming from GDP impacts). Also as in Alternative 1, using alternative sources to cover the financing gap might have reduced the severity of these negative impacts, depending on the amounts raised.
- **Severe social and economic impacts resulting from the absence of MFA and IMF support (Alternative 3).** The absence of any support from the IMF and MFA operations would have had severe and damaging effects on the social situation in Tunisia. GDP was estimated to be 13% lower in 2022 under Alternative 3, which would have weighed down income growth and job creation. In turn, this would likely have exacerbated existing labour market issues such as high long-term and youth unemployment. In parallel, mounting stress on domestic borrowing would have created inflationary pressure, increasing the cost of living. However, if the Tunisian authorities were able to tap into other sources of finance, such as international support, borrowing on international markets or increasing tax revenues, some of the negative social impacts associated with lower GDP or higher inflation might have been reduced. This reduction would depend on the amounts which could have been secured from these alternative sources. These, however,



could not have been reliably assessed due to high uncertainty over their availability. Finally, the absence of IMF and MFA support would have implied the removal of various conditionalities intended to reform key social policies such as the social safety net. The absence of such policies would have added to the already severe macroeconomic impacts described above.

## **5.5 Debt Sustainability Analysis (DSA)**

The objective of this DSA was to evaluate the contribution of MFA II (2017-2019) to the sustainability of Tunisia's public debt. DSA relies on modelling the key debt burden indicators and macroeconomic variables that affect the path of a country's debt and its capacity to manage its debt sustainably. To assess the contribution of the MFA support to Tunisia's debt sustainability, the actual outcomes (baseline scenario) are compared to hypothetical outcomes in three counterfactual scenarios:

- What would have happened without the MFA II first tranche but with the IMF assistance in place (Alternative 1: no MFA first-tranche scenario);
- What would have happened without second and third tranches (Tunisia), but with the IMF assistance in place (Alternative 2: no MFA second-tranche scenario);
- What would have happened in the absence of MFA II and without the IMF assistance (Alternative 3: no MFA, no IMF scenario).

Note that in the case of Tunisia, increased support from international donors, increased tax revenues and, only in Alternative 1 and 2, increased international debt issuances might have been feasible. However, it is not clear if access to these sources of finance would have been available within the required timeframe to cover the financing gap, and the amounts that could have been raised cannot be assessed. Therefore, the analysis presented focuses on the central case, where the financing gap is covered only by a mix of cuts to public investment and additional domestic borrowing.

### **5.5.1 Tunisia - what happened under the baseline scenario**

Tunisia's economic growth was severely affected in the years after the 2011 Arab Spring events and especially after 2015. This slowdown can be attributed to the overall decline in economic growth in the MENA region, the situation in Libya, a collapse in tourism (further affected by terrorism events in Tunisia) and the underlying structural problems limiting the performance of the public and private sector (poor governance and business environment, high wage bill in the public sector). At the same time, the country maintained relatively high public sector deficits. Some success in reforming public finances could be observed over the period of MFA II, as the public sector deficit was brought down from 5.9% in 2016 to 4.1% in 2019. Nevertheless, as a result of these deficits and the increasing cost of borrowing and debt accumulation, the gross financing needs remained as high as before the start of the MFA operation, at 10.9% in 2017 and 9.4% in 2019. The support from the IMF and the MFA provided some relief in respect of these financing needs, and Tunisia continued to enjoy access to international financial markets at a relatively low interest rate. Nevertheless, debt accumulation over that period continued, with the debt-to-GDP ratio increasing from 62.3% in 2016 to 71.8% in 2019.

As the growth in GDP picked up briefly in 2018 and the public sector deficits were reduced, Tunisia could have briefly entered a sustainable debt path around 2019, had structural and public finance reform continued. However, the impact of the COVID-19 pandemic in 2020 halted progress towards these goals and further assistance was required to alleviate the mounting gross financing needs of the country. Current projections show that Tunisia's debt can enter a sustainable path only with an ambitious set of reforms aimed at improving economic performance and consolidating public finances<sup>228</sup>.

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<sup>228</sup> Based on the IMF's 'Reform' scenario projections, IMF Country Report No. 21/44.

### **5.5.2 Tunisia: Alternative 1 – no MFA first-tranche scenario**

In the absence of the first MFA tranche of EUR 200 million, Tunisia would likely have relied on increased domestic debt issuances and cuts to public investment. Cuts to public expenditure would likely have had a small negative impact on GDP, with the difference from the baseline projection not exceeding 0.5% by 2025. While in 2017 the gross-financing-needs-to-GDP ratio would have declined slightly as a result of lower borrowing, the ratio in later years would have been slightly higher than in the baseline projection. This difference would arise as a result of lower GDP, but also due to:

Increased interest payments on debt used to replace the first MFA tranche (direct effect);

Increased cost of borrowing from private investors as a result of lower investor confidence in the absence of the first MFA tranche, which in the baseline scenario provided a signal of trust in the government's capacity to conduct the necessary reforms (indirect effect).

As a result, debt accumulation by 2025 would have been slightly higher compared to the baseline projection, at 84.8% vs 84.4%. This difference is negligible, thus the assessment of Tunisia's debt sustainability in the Alternative 1 scenario is the same as in the baseline.

Overall, as a result of the direct difference in interest payments and the indirect effect on interest demanded by private investors, the first MFA tranche is estimated to have lowered the cost of Tunisia's borrowing by EUR 6.8 million in 2017, EUR 8.4 million in 2018, and 13.5 million in 2019. A lack of these savings in the absence of the first tranche would not have had a major impact on key debt sustainability indicators. However, over the entire period of borrowing (13.4 years) the first tranche of MFA is estimated to have provided a cumulative, undiscounted saving on the cost of Tunisia's borrowing of approximately EUR 127.3 million (as a result of the combined direct and indirect effects).

### **5.5.3 Tunisia: Alternative 2 – no MFA second and third tranche scenario**

The options available to Tunisia in the absence of the second (and third) MFA tranche would have been nearly the same as those in 2017 (as in Alternative 1). However, based on the analysis of the headroom for adjustment to domestic borrowing and space for cuts to public investment, the lack of the second and third tranches would have been covered almost entirely by cuts to public investment (EUR 250 million), with the remaining amount covered by additional domestic issuances (EUR 50 million). The primary reason for the assumed preference towards cuts to public investment is lower estimated headroom for domestic borrowings in 2019 – further borrowings would likely have increased the inflation rate above the maximum tolerable level.

Cuts to public expenditure would likely have had a small negative impact on Tunisia's GDP in the long term, with the difference from the baseline projection gradually increasing over the years, but not exceeding 1.0% by 2025. As the scenario assumes lower total borrowing in 2019, the gross-financing-needs-to-GDP ratio would have been lower in 2019 (8.7%) than in the baseline scenario (9.4%). This would also mean slightly lower debt accumulation in 2019 and 2020 (as measured by the debt-to-GDP-ratio). However, in later years both ratios would slightly exceed their baseline projected levels. As in the Alternative 1 scenario, this would arise as a result of lower GDP and increased costs of borrowing in the absence of the second and third MFA tranches. According to the projections, by 2025, Tunisia's debt-to-GDP ratio would have reached 85.0%, slightly higher than the baseline projection for the same year (84.4%).

In conclusion, under the Alternative 2 scenario assumptions, Tunisia's debt sustainability would have remained largely unaffected compared to the baseline scenario. However, the second and third MFA tranches provided a substantial saving on the cost of borrowing, both due to the direct difference in the cost of borrowing between MFA and domestic

borrowing partly used to replace it, and also due to the indirect effect of MFA support on risk premia demanded by private investors. According to modelling, over the entire term (16.5 years for the second tranche and 15 years for the third tranche), the total direct and indirect saving on the cost of borrowing is estimated at EUR 108.6 million.

#### **5.5.4 Tunisia: Alternative 3 – no IMF, no MFA scenario**

The Alternative 3 scenario assumes that Tunisia would not have received support from the IMF in the form of the disbursements under the four-year IMF EFF arrangement between 2016 and 2019 (approximately the equivalent of EUR 1.4 billion), nor would it have received the EUR 500 million disbursed as part of MFA II. The evidence collected through consultation suggests that the absence of the support from the IMF and the EU would likely have led to a loss of access to international capital markets between 2017 and 2019, meaning that the government would have had to cover a higher financing gap than the combined IMF and MFA funding.

According to the headroom analysis, it is likely that the government would have covered this gap by relying on significant cuts to public investment and increased domestic debt issuances between 2016 and 2019. Therefore, Tunisia would most likely have been able to meet its debt obligations in these years. Nevertheless, the analysis shows that the long-term effects of these adjustments would have caused a deterioration in Tunisia's GDP and in its debt sustainability.

According to the projections, initially over 2016-2019, the gross-financing-needs-to-GDP ratio would have been lower as a result of cuts to public investment. However, as a result of a decline in GDP from the baseline projection, and the higher costs of borrowing, between 2020-2025 the ratio would have been between 1.2 to 2.7 percentage points higher than the baseline projection (depending on the year). As a result, by 2025, public debt accumulation would have been higher, at 93.8% of GDP. This is markedly higher than the 84.4% projected in the baseline scenario. Based on this trajectory, in the absence of the IMF and the EU support between 2016 and 2019, Tunisia's economic outlook would have been seriously weakened and, resultantly, Tunisia's debt could have become unsustainable in medium to long term (even with the international support that Tunisia has recently managed to secure for years 2020-2025).

The savings on the cost of borrowing that the IMF EFF and all MFA tranches will provide to Tunisia are estimated at EUR 4,745 million (cumulative over the entire term of lending). This is almost entirely the result of the indirect effect of the support provided by the IMF and the EU, which has enabled (and will enable) Tunisia to access private capital markets at lower rates than would otherwise have been available.

## **5.6 Efficiency**

**Question:** *Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country?*

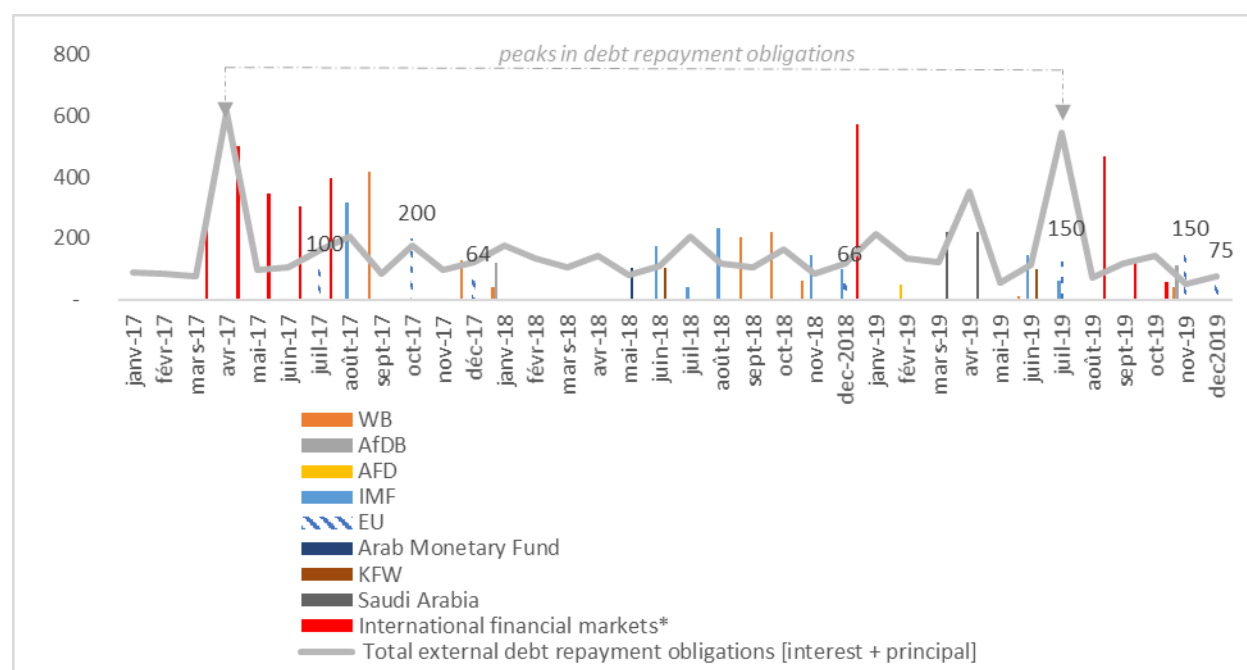
The first tranche of MFA II was disbursed in 2017, three months after the final disbursement of MFA I. The continuity of EU support in Tunisia was valuable, given the deteriorating fiscal stance (public deficit stood at 6.5% in 2017).

The second and third disbursement took place two years later but the relevance of the MFA II was as least as high in 2019. The fiscal stance had improved and the CAD narrowed, positively impacting the foreign exchange reserves, but growth was decelerating (drop in GDP growth to 1% in 2019) and considerable debt repayment obligations were due that year (EUR 2 billion) (see Figure 12).

No MFA disbursement took place in 2018 but no major issues resulted from this delay, as absorbing a gap of the size of an MFA tranche was still feasible for Tunisia at the time. The budgetary support provided by other IFIs (most notably KfW) helped to close the gap (as it was not factored in initially and its first tranche was paid out in 2018). Financing (in foreign currency) was also raised from the domestic banks in 2017 and

2019 (TND 736 million or EUR 303 million in 2017 and TND 1,189 million or EUR 348 million in 2019)<sup>229</sup>.

Figure 24. MFA II and budget support assistance provided to Tunisia, 2017-2019, versus debt repayment obligations, in EUR million



Source: Ministry of Finance data (*rapports d'exécution du budget*), except for EU-related support, European Commission data (to avoid discrepancies in relation to exchange rate conversion)

Notes:

\* In 2017, 54% of the resources from the international financial markets were linked to Qatari private placements. The rest of the resources (in 2017 and subsequent years) came from Eurobond issuances.

The original amounts were in TND. The exchange rate applied is from the Infoeuro website. Available at: [https://ec.europa.eu/info/funding-tenders/procedures-guidelines-tenders/information-contractors-and-beneficiaries/exchange-rate-infoeuro\\_en](https://ec.europa.eu/info/funding-tenders/procedures-guidelines-tenders/information-contractors-and-beneficiaries/exchange-rate-infoeuro_en)

**Question:** To what extent did the MFA operation design enable the intervention to be carried out efficiently? In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives?

Beyond the disbursement schedule assessed above, a number of specific issues are worth considering.

### Issue 1: Ownership of the programme by the authorities

During MFA I, the level of ownership was described as lower-than-expected. Under MFA II, difficulties were better anticipated from the start and were not necessarily considered problems of ownership by EU or IFI interviewees. Interpretations of ownership vary, however. Certain elements that are key to guaranteeing an optimal level of ownership were not lacking. Conditions under the MFA were – except for the condition on the Euro-Mediterranean Agreement – fully aligned with the authorities' stated reform programme. In addition, key policymakers negotiating with the EU and IFIs seemed to be intellectually convinced of the need to undertake reforms, and indeed the approach to be taken. However, some political factors were not favourable to reform. In Tunisia, a politics of consensus, whereby a government can only be formed after a laboured process

<sup>229</sup> Ministry of Finance (2020). *Brochure mensuelle de la dette publique, decembre 2020*.

of consensus bloc formation<sup>230</sup>, was put in place from 2015 to end a period of acute political polarisation. Although essential to stabilise the country and preserve peace, this politics of consensus prevented bold economic reform and reportedly led to 'myopia and inaction'<sup>231</sup> from an economic policy perspective. None of the political parties was willing to bear responsibility for the cost of reforms, and that acceptance of full responsibility for the consequences of reform typically constitutes the very essence of ownership<sup>232</sup>. As a consequence, there was a systematic lack of expressions of political will by top leadership, public statements in favour of reform, or efforts to gain broader support for the reform outside of the government.

Even within the government, the MDICI, as the lead negotiator, did not always manage to get buy-in from other ministries, entities or wider stakeholder groups. Efforts were made to ensure full support of the measures, which were discussed via a Council of Ministers. This avoided major misunderstandings but did not always suffice to ensure broad ownership of the measures, and problems appeared later, despite the fulfilment *stricto sensu* of the condition. For example, in relation to the investment climate area, the MFA condition required the setting up of the TIA. In the spirit of the condition, the TIA was supposed to be a one-stop-shop replacing the APPI and the CEPX, but the lack of support meant that the TIA became an additional institution, rendering the institutional landscape even more complex.

The two-year period of MFA II implementation also witnessed a lack of political certainty, with two cabinet reshuffles (in 2017 and again in 2018) and major elections in 2019. Strong socioeconomic demands were formulated over this period and were hard to ignore, given the context. For illustrative purposes, UGTT represents an estimated 500,000–750,000 public sector employees, is able to organise nationwide general strikes, and is one of four organisations awarded the 2015 Nobel Peace Prize 'for its decisive contribution to the building of a pluralistic democracy in Tunisia in the wake of the Jasmine Revolution of 2011'<sup>233</sup>.

## **Issue 2: Capacity to effectively implement the programme**

Capacity issues were one of the factors causing delays in implementing reform. This was highlighted by several donors. In its reports, the IMF frequently reiterated the importance of its capacity development activities to address existing capacity constraints<sup>234</sup>, while the EBRD underlined some gaps in administrative capacity to implement reform and deliver public sector projects<sup>235</sup>.

Conditions requiring the involvement of a number of stakeholders proved more challenging (e.g. in relation to investment climate). The MDICI (which merged with the Ministry of Finance in 2020) lacks team capacity and traction to effectively coordinate with other ministries/entities, despite its best efforts. Coordination is generally a difficult task in the Tunisian context, and the intensification of the coordination work on the side of key donors and IFIs since 2018 was intended to make this task easier.

Among individual line ministries/agencies, capacity issues were not evenly distributed and affected some reform areas more than others. They were particularly prevalent in ALMPs and social safety net reforms. In such cases, complementary technical assistance

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<sup>230</sup> Maher Al-Qudurat (2020). 'Consensus politics and democracy in Tunisia: challenges for political reform'. Available at: <https://www.washingtoninstitute.org/policy-analysis/consensus-politics-and-democracy-tunisia-challenges-political-reform>

<sup>231</sup> <https://www.arab-reform.net/publication/tunisias-upcoming-challenge-fixing-the-economy-before-its-too-late/>

<sup>232</sup> UNCTAD (2005). Country ownership of reform programmes and the implications for conditionality.

<sup>233</sup> <https://www.nobelprize.org/prizes/peace/2015/press-release/>

<sup>234</sup> IMF Country Report No. 19/223.

<sup>235</sup> EBRD (2018). Tunisia Country Strategy 2018-2023.

programmes were instrumental in taking forward those reforms (e.g. technical assistance from the WB for social safety net reform).

### **Issue 3: Liaison and monitoring processes**

The ex-post evaluation of MFA I revealed some difficulties in liaising effectively with the Tunisian authorities. To some extent, these were due to the fact that the operation was the first of its kind, with liaison proving more fluid under MFA II. The availability of official documents in English only was not seen as a constraint by the Tunisian authorities, given that the rest of the communication was held in French. Persistent challenges noted by the EU were the structural challenges faced by the Tunisian administration, issues with the timely provision of macroeconomic and financial data, and with responsiveness to MFA-related communication.

### **Issue 4: Adjustments to implementation in light of unforeseen external events**

The MFA II approval process was undertaken in parallel with MFA I implementation, illustrating the EU ability to react quickly to deteriorating external conditions.

In the case of MFA II, one waiver was applied to allow for the disbursement of the third tranche, in relation to VAT reform. A review of DG ECFIN documentation suggests that the granting of this waiver was adequately documented and justified, given the efforts and actual progress against the final objective pursued via alternative means (most notably, efforts to combat tax evasion).

Overall, when assessing the fulfilment of the conditions, it seems that the right balance was struck. Flexibility was shown in relation to VAT reform, but a firm stance was adopted to push for parliamentary adoption of the law on the independence of the CdC. This represented a step change for the external audit field in Tunisia, achieved in part thanks to EU leverage. In this instance, being more flexible would certainly have constituted a 'missed opportunity'.

There was no evidence of the EU being overly flexible in relation to its MFA II to Tunisia, although donors and IFIs reported that donors in general (including the IMF) were too flexible with Tunisia at times, thereby not truly incentivising (if not actively disincentivising) reforms. The same criticism was shared in Tunisia, in the focus group discussions and in the expert survey.

### **Issue 5: Visibility and public ownership**

As expected, based on the results of the ex-post evaluation of MFA I, and similar experiences in other countries, there was very limited visibility of the MFA instrument among the general public.

- Some standard communication activities were conducted by the EU to promote the MFA assistance, including issuing press releases at the time of the approval of the operation, the signature of the MoU and the subsequent disbursements<sup>236</sup>. A signing ceremony was organised in April 2017 in Brussels, with the governor of the CBT and the Minister of Finance<sup>237</sup>.
- Awareness of the MFA programme remains limited in Tunisia. As reported in the focus group, the media in Tunisia did not report the MFA programme in any detail, reflecting the fact that economic and financial matters are typically not well covered in Tunisia. IMF programmes are comparatively more visible but sometimes raise public acceptance issues<sup>238</sup>. There were even public protests

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<sup>236</sup> For example, the press release accompanying the approval of the third disbursement of EUR 150 million in October 2019. Available at: [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_19\\_6164](https://ec.europa.eu/commission/presscorner/detail/en/IP_19_6164)

<sup>237</sup> <https://www.bct.gov.tn/bct/siteprod/actualites.jsp?id=353>

<sup>238</sup> For example: Chandoul, J. (2018). 'The IMF has choked Tunisia. No wonder the people are protesting'. Available at: <https://www.theguardian.com/commentisfree/2018/jan/17/imf-tunisia-people-rioting-2011-economic-reforms>



against austerity measures over the lifetime of the second operation (e.g. widespread protests in January 2018, which reportedly entailed hundreds of arrests, injuries and one death<sup>239</sup>). The grievances are not always directly linked to the IMF demands (e.g. the 2018 increase in VAT rates was not an IMF demand).

## **5.7 EU added value**

Several aspects can be considered when looking at added value: financial and non-financial added value of an intervention at EU level; and push for reform.

### **5.7.1.1 Financial added value**

Looking at the aid data, it is not clear that individual Member States could have mobilised the resources at the scale and in the form required in the absence of MFA II.

EU institutions ranked first among donors to Tunisia over the period 2016-2019, and EU Member States were already providing a lot of assistance to Tunisia during that time (see Annex A1.2 Fiche on the factors affecting EU leverage). Member State-level aid typically takes the form of project support, but in Tunisia – somewhat exceptionally – there are several instances of Member States providing budget support. For 2017-2019, this aid reached EUR 260 million from France and Germany (see Figure 9). In 2020, Italy also stepped in. Yet, there is no indication that bilateral donors from the EU would have had room to increase their financial envelope in the absence of MFA II. Rather, the impression is that Member States were already maximising their support to Tunisia and that there was something of a 'Tunisia fatigue', given the slow progress in reform. The aid from Member States was needed to complement the EU aid, given the size of the needs.

The EU added value also stems from the terms and conditions associated with the MFA operation. MFA is generally disbursed on concessional terms, i.e. at preferential rates, along with long maturity. Box 19 presents an overview of other forms of financial support, along with the terms and conditions attached, provided to Tunisia by other bilateral/multilateral donors over the period 2017-2019. The budget support offered by other donors was generally on par with MFA II, in terms of favourable interest rates and repayment conditions, with a few differences.

**Box 20.** Financial support other than the MFA, provided to Tunisia by bilateral/multilateral donors

A few differences are observed compared to MFA II:

- Reimbursement periods agreed with multilateral donors such as IBRD or AfDB were generally longer, ranging between 19 and 30 years, with generous grace periods.
- Other donors offer maturity periods/dates on par with those agreed with the EU in the context of the MFA, except for the financing offered by Saudi Arabia and the IMF (maturity of 7 years and 10 years, respectively, compared to 15 years for MFA II).
- MFA II is the only bullet loan (i.e. loan where the payment of the principal is entirely due at the end of the loan term).
- The IMF, donors within the MENA region and bilateral donors generally proposed financing at slightly higher interest rates than MFA II (ranging between 1.5% and 2.5%).

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<sup>239</sup> The Guardian (2018). 'Tunisia protests, authorities accused of indiscriminate crackdown', 11 January 2018. Available at: [www.theguardian.com/world/2018/jan/11/tunisia-hundreds-arrested-violent-protests-army-deployed-cities](http://www.theguardian.com/world/2018/jan/11/tunisia-hundreds-arrested-violent-protests-army-deployed-cities)

- The IMF and some donors, such as AFD and AfDB, charged an additional rate (typically to cover their operations).

Donor	Value of financing	Interest rate	Maturity period	Area(s)/ sector(s) covered	Reference
MFA II	EUR 500 million	Rate of 0,3-0,75% (depending on the tranches)	Reimbursement period: 13 to 16 years (depending on the tranches)  Bullet loan	Budget support	
Multilateral donors and IFIs (not MENA-specific)					
IMF	EUR 1.4 billion (disbursed)	Variable rate linked to the SDR rate (which oscillated between the floor for SDR Interest Rate i.e. 0.05% and 1.2%), plus 1 percentage point  Additional service charges of 0.5 percentage point, on each amount drawn  Annual reimbursable commitment fees	Reimbursement period: 10 years  Grace period: 4.5 years	Budget support	
International Bank for Reconstruction and Development (IBRD)	EUR 457 million	Variable rate: (+)1.2%; Euribor (-) 0.27%	Reimbursement period: 28 years  Grace period: 5.5 years	Investment/ business climate	<i>Loi 55/2017 du 8/8/2017 accord 13/06/2017</i>
	EUR 413 million	Variable rate; Euribor (+) 0.7%	Reimbursement period: 28 years  Grace period: 5 years	Budget support	<i>Loi 45/2018 du 10/8/2018 accord 29/06/2018</i>
AfDB	EUR 123.7 million	0.6%	N/A	Water	<i>Loi 24/2017 du 12/4 2017 accord du 30/11/2016</i>
	EUR 120 million	0.434% (Euribor 6 months)	Reimbursement period: 25 years  Grace period: 7	Modernisation of the financial sector	<i>Loi 64/2019 du 1/8/2019 accord dyu 13/6/2019</i>



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			years		
	EUR 70 million	0.492%	Reimbursement period: 19 years Grace period: 7 years	Technology	N/A
Bilateral (other than MENA region)					
KfW	Loan: EUR 186 million	Negotiated at time of disbursement		Water; agriculture	<i>Loi 34/2017 du 2/2/2017 accord du 29/11/2016</i>
	Grant: EUR 95 million, EUR 405 million			Various projects	<i>Loi 15/2020 du 18/3/2020 accord du 10/4/2019</i>
	EUR 100 million	2.20%	Reimbursement period: 15 years Grace period: 5 years	Modernisation of the financial sector	<i>Loi 30/2019 du 25/3/2019 accord du 11/7/2018</i>
Italy	Loan: EUR 10 million Grant: EUR 40 million	n/a	Reimbursement period: 62 years Grace period: 54 years	BOP	<i>Loi 35/2017 du 8 mai 2017 accord du 18 mai 2015</i>
AFD	EUR 100 million	N/A	Reimbursement period: 20 years Grace period: 7 years	Governance - public enterprises	N/A
Donors from MENA region					
<i>Fond Arabe Développement Economique et Social (FADES)</i>	TND 400 million	2.5%	Reimbursement period: 30 years Grace period: 7 years	Integrated development	<i>Loi 6/2019 du 22/1/2019 accord 10/4/2018</i>
	TND 400 million	2.5%	Reimbursement period: 30 years Grace period: 5 years	Primary education	<i>Loi 42/2018 du 11/7/2018 accord 28/2/2018</i>

<i>Fonds Koewti pour le Développement Economique Arabe</i>	TND 40 million	1.5%	Reimbursement period: 20 years Grace period: 4 years	Rehabilitation services - hospital equipment	<i>Loi 5/2019 du 22/1/2019 accord 21/3/2018</i>
Saudi Arabia	USD 500 million	2.5%	Reimbursement period: 7 years Grace period: 2years	Budget support	N/A

Source: Parliamentary and other official publications - Tunisia

### 5.7.1.2 Non-financial added value

#### ***Signalling effect to civil society and the general population***

Given that the EU is Tunisia's main partner, and given the ongoing political transition in Tunisia, both sides expected that the EU would step in to provide support to Tunisia at a time of crisis, as already noted under the evaluation of MFA I. Symbolically, the origin of the funds matters. Participants in the experts survey almost unanimously agreed that MFA II financing sent a strong signal of EU support to Tunisia (32 of 37 respondents agreed or strongly agreed with the statement).

However, the visibility of the MFA is limited beyond restricted circles (see Section 5.6). In Tunisia, there was no evidence of MFA conditions being used by CSOs in the public debate as a means of leverage to push certain reform agendas. The condition on the independence of the CdC was, however, helpful when advocating for the parliamentary passage of the law.

To some extent, information on financial support from the EU (when received) was sometimes received with mixed feelings in Tunisia, as reported during the focus group discussions. On the one hand, MFA assistance is seen as a relief, bringing some breathing space for public finances and allowing wages to be paid. On the other hand, there is scepticism over the loan format, which fuels debt sustainability concerns. There is also widespread frustration that despite the aid received, reforms have largely failed to deliver on the ground. This disenchantment is visible in opinion polls prompting respondents about the effectiveness of EU support (in general) and reflects Tunisians' increasing distrust of their own political leaders for failing to deliver. In 2019, only 48% of those surveyed thought that the financial support provided by the EU was fairly or very effective. The proportion was much higher in 2017, at 79%<sup>240</sup>. Some view the assistance with suspicion, as a bargaining chip that the EU uses to incentivise Tunisia to sign the DCFTA<sup>241</sup>.

Focus group participants and local experts generally agreed that politicians and the media should communicate more about the rationale behind the reforms, and their expected and actual benefits.

<sup>240</sup> European Commission (2017). EU Neighbourhood – South. Available at: <https://www.euneighbours.eu/en/south/stay-informed/publications/opinion-poll-2017-tunisia-factsheet> ; European Commission (2019). EU Neighbourhood- South. Available at: <https://www.euneighbours.eu/en/south/stay-informed/publications/opinion-poll-2019-tunisia-factsheet>

<sup>241</sup> The majority of the coverage of the DCFTA negotiations had a largely negative tone in Tunisia.

## **Confidence-boosting effects**

Despite the limited awareness of the MFA instrument among the private sector, experts report that there is clear reasoning for the impact of MFA on business confidence. Many survey respondents (18 of 37) strongly agreed/agreed that 'the MFA II helped to restore confidence in the economy'. In the present case, however, the correct key message would be 'the MFA II, combined with the IMF programme, prevented a further drop in confidence in the economy', as the factors with established links to business confidence showed signs of deterioration over the period of implementation, and confidence-boosting effects are typically more associated with the MFA and IMF combined.

One channel for the confidence-boosting effect induced by MFA is the link with the credit ratings issued by the largest credit rating agencies (Moody's, S&P, Fitch). These are typically carefully followed by the private sector and have a direct and meaningful impact on businesses' financing costs and confidence. The MFA operations, combined with the IMF programmes, typically provide a seal of approval for the authorities' reform plan and a signal that the country will be supported. The analysis of main drivers behind sovereign ratings for Tunisia shows that the credit rating agencies considered the IMF - and international support more generally, including EU support - a positive factor, although not sufficient to prevent actual downgrades, given the poor implementation record of the authorities (see 5.3.2). In line with this, the vast majority of experts surveyed felt there would have been further downgrades in the no MFA or no IMF scenario (31 or 32 experts out of 37). Experts found the impact of no MFA only much harder to assess (12 and 11 in 2017 and 2019, respectively, indicated 'don't know or are not sure' when asked about the impact of MFA II on credit ratings). For the rest, views were divided.

The evolution of the foreign exchange rate provides no clear sign of a confidence-boosting effect. Expert views suggest that a depreciation of the Tunisian dinar could have been among the plausible options considered in the absence of MFA, although not among the most likely options (average score of about 2.4 out of 5, with five being most plausible).

Beyond the financial aspects, some individual conditions were expected to have positive effects on the business community, including condition #9 in relation to the rollout of TUNEPS, conditions #8 and #13 on the implementation of the investment code, and condition #15 on the signing of a Euro-Mediterranean Agreement. TUNEPS aside, the effects of the conditions could not be expected to have materialised as yet (see Section 5.3.4).

### **5.7.1.3 Reinforcing Tunisia's call for reform and conditionality design**

Overall, the assessment of the role of the EU in Tunisia's reform process is quite positive. Of those surveyed, 17 respondents believed that 'the EU contributed to significant progress being made in key reform areas' (9 were not sure; 11 thought that the EU did not contribute to significant progress)<sup>242</sup>. The criticality of the EU nudge varied depending on the reform area. Adopting a firm stance, the EU was able to clearly push for progress in the external audit field. In other areas, the criticality of the EU nudge was less obvious, although experts often noted that the pace of reform might have slower in the absence of MFA.

Most of the survey respondents strongly agreed (10) or agreed (18) that 'the EU could have used its leverage to promote deeper structural reforms'. When prompted about the deeper reforms that could have been promoted, respondents often spontaneously mentioned state-owned enterprises and public administration.

Roles could have been divided better between the EU and IMF. Many cross-conditions with identical wording to IMF benchmarks were included in the MFA II operation. Cross-conditions can be of high added value in respect of strategic issues. For instance, the

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<sup>242</sup> It is likely that these mild results on the usefulness of the EU nudge also illustrate the frustration with the lack of tangible progress made.

cross-condition here signalled that the EU also supported civil service reform. In other areas, however, such as in the financial sector, cross-conditions had lower relevance. MFA conditions are fixed, while IMF benchmarks can be renegotiated following quarterly reviews, meaning that discrepancies can still occur in terms of what is expected from the authorities and by when. In that context, pushing for different aspects of the same reform can be more helpful. For instance, in relation to tax reform, there could have been a case for MFA II to maintain its focus on the reform of the *regime forfaitaire* (as under MFA I) or tax administration reform (as under EU budget support programmes), while the IMF pushed for VAT reform.

## **6 Evaluation results: Jordan**

### **6.1 Relevance**

**Question:** *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?*

To answer this question, four essential issues will be taken into consideration, namely: (i) adequacy of the size of the financial assistance, (ii) appropriateness of the form of financial assistance, and (iii) design and focus of conditionality.

#### **6.1.1 Issue 1: Size of financial assistance**

##### ***Size of financial assistance vs expectations***

The amount proposed by the European Commission and approved by the co-legislators (EUR 200 million) corresponded to the amount pledged at the conference held in London on 4 February 2016. This was lower than the amount requested by the Jordanian authorities (EUR 350 million) but was justified based on an updated assessment of the country's external financing needs. A commitment to propose further MFA assistance was incorporated in a joint declaration by the European Parliament, the Council, and the Commission, and attached to the MFA decision. It was agreed that this potential further assistance would be discussed following the successful implementation of MFA II, provided that the standard preconditions continued to be met and that there was an external financing gap.

##### ***Size of financial assistance vs financing gap and burden-sharing considerations***

The MFA II was intended to be disbursed over 2016-2017 (see Table 22). It would have represented 5.5% and 9.6% of the overall financing gap in respective years. Other financing sources identified ex-ante included the IMF EFF programme, WB commitments, and various budget support grants (including financing from Gulf countries) and bilateral loans. The issuance of international bonds (possibly with US guarantees) was also factored in. Sukuk bonds were also envisaged, as well as several other donors (e.g. Japan), following pledges made at the London conference.

*Table 23. Jordan's gross external financing gap and potential financing sources, 2016-2017, as estimated ex-ante*

	<b>2016 (USD million)</b>	<b>2017 (USD million)</b>
Overall External Financing Gap	-2,063	-1,173
IMF disbursement	64	-225

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

World Bank-DPL	250	100
Residual Financing Gap	-1,748	-1,298
<b>MFA II</b>	<b>113</b>	<b>113</b>
EU budget support grants	96	87
France budget support loan	84	0
US budget support grants	417	231
GCC budget support grants	649	546
Arab Monetary Fund policy loan	258	0
Other grants	4	5
Other financing sources**		315
<b>Total</b>	<b>1,621</b>	<b>1,297</b>
<b>MFA II as a share of overall financing gap</b>	<b>5.5%</b>	<b>9.6%</b>

Source: European Commission (2016). Ex-ante evaluation statement on EU macro-financial assistance to the Republic of the Hashemite Kingdom of Jordan, SWD (2016) 213 final.

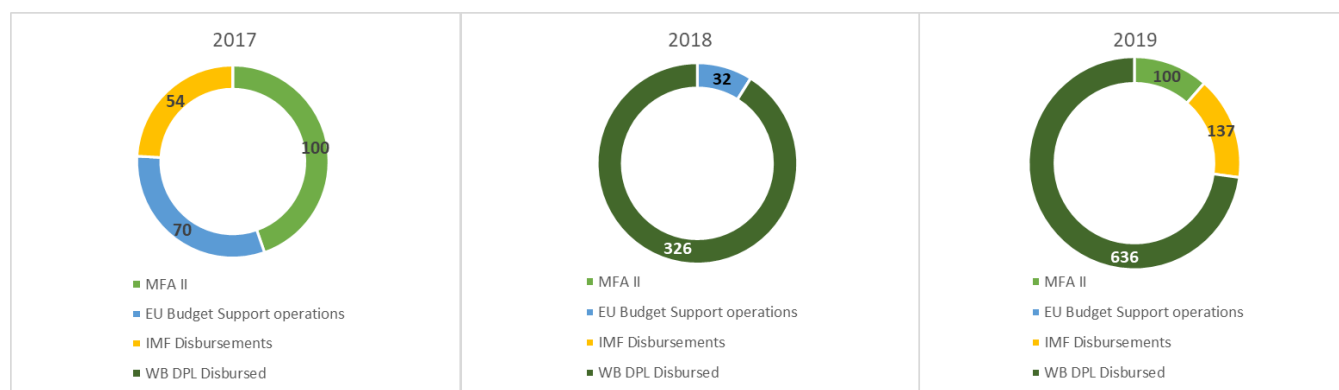
The first tranche of EUR 100 million was disbursed shortly after the signing of the MoU in 2017, while the second and final tranche came in 2019.

***Size of the financial assistance vs budgetary needs and international financing support***

In terms of absolute value, the size of the financing was fairly limited, at EUR 20 million greater than the previous MFA I (EUR 180 million).

In relative terms, the size of MFA II to Jordan represented 0.3% of GDP in both 2017 and 2019. This was not an insignificant amount, including in the context of the combined assistance received in the form of budget support from the IMF and WB, as well as other EU budgetary support operations. Over the period 2017-2019, the EU support used for budgetary purposes (MFA and budget support programmes combined) represented 23% of combined budgetary assistance received (compared to 13% from the IMF and 65% from the WB). The relative importance of EU support, as well as that of other IFIs/donors, varied considerably from year to year.

Figure 25. MFA vs IMF and WB budgetary support, 2017-2019, in EUR million



Source: IMF, WB and European Commission data.

Notes:

\* Although other donors are known to provide assistance in the form of budget support to Jordan (e.g. US, Japan, etc. (see aid atlas)), they are not represented here due to a lack of an updated and comprehensive dataset.

Currency converted to EUR. For the original amounts in USD, the exchange rate USD-EUR for the last day of a given month was applied (available at: <https://www.ofx.com/en-gb/forex-news/historical-exchange-rates/yearly-average-rates/>).

### 6.1.2 Issue 2: Form of financial assistance

In accordance with the 2013 Joint Declaration, MFA should take the form of a loan, reflecting its nature as a tool to address temporary issues. However, the receiving country may be eligible for grants, or a mix of loans and grants, under specific circumstances.

MFA II to Jordan was disbursed in the form of a concessional loan, with a low interest rate, extended maturity and grace period. The terms were quite favourable compared to the market terms or the IMF EFF.

Jordan did not qualify for a grant component for the following reasons:

It was ranked as an upper-middle income country<sup>243</sup> as per WB Atlas 2014 figures (the latest available at the time of the assessment);

Jordan was not eligible for concessional financing under the IDA or the IMF's Poverty Reduction and Growth Trust<sup>244</sup>;

National public debt of was assessed as 'manageable;'

The MFA loan was part of a wider package, comprising grants (EUR 95 million<sup>245</sup>);

Under Uncommitted budget allocations for MFA grants in the EU budget, in EUR million there would have been some constraints to put aside a sizeable grant component.

<sup>243</sup> Shortly afterwards, both countries fell into the lower-middle income categories: Tunisia from 2015 and Jordan temporarily in 2016.

<sup>244</sup> European Commission (2016). Ex-ante evaluation statement on EU macro-financial assistance to the Republic of Tunisia, SWD(2016) 30 final; European Commission (2016). Ex-ante evaluation statement on EU macro-financial assistance to the Republic of the Hashemite Kingdom of Jordan, SWD(2016) 213 final.

<sup>245</sup> Annual reports on the implementation of the European Union's instruments for financing external actions. The data refer only to external aid financed through the EU budget and do not include bilateral aid from Member States.

The ex-post evaluation of MFA I confirmed that, despite being disbursed in a loan format, the MFA contributed to the country's debt sustainability, given the concessional nature of the loans and the anticipated cost of alternative financing.

The MFA operation to Jordan was part of a wider package of EU support that also comprised grants and other budgetary supports and there would have been some budgetary constraints for the EU to put aside a sizeable grant component (see Figure 5.2).

### **6.1.3 Issue 2: Focus on conditionality**

#### ***High-level analysis***

This sub-section sets out how the overall relevance of the MFA conditionality package will be examined in light of the guiding principles.

#### ***The extent to which conditionality was in line with the core objectives of MFA and EU priorities***

The European Commission subscribes to the view that conditions should be designed to pursue EU external policy objectives, with macroeconomic objectives in addition or as an alternative. MFA II to Jordan focused on the following reform areas: (i) PFM; (ii) taxation; (iii) social safety nets; (iv) employment and trade; (vii) water sector. Many of these reform areas were inextricably linked to either to the objectives of the MFA operation (PFM, taxation) and/or EU external policy objectives in the region (employment and trade).

#### ***Number of conditions and scope of conditionality***

The nature and ambitiousness of conditionality often reflects the time needed to implement reform. Typically, the timeframe should be short – within 12 months – and anchored in measures that can be executed within that timeframe. The time and size imperative usually dictates the number and scope of the conditions, against a backdrop of EU leverage in the context of that country's reach and ambition.

In the case of Jordan, the number of conditions under MFA II (11) was comparable to MFA I (9). As with MFA I, the number of MFA II conditions was also assessed as adequate by most interviewees from the European Commission and the national authorities.

Several concrete measures with immediate tangible actions were included under MFA conditionality (see Table 23). Some other conditionality necessitated the establishment of stepping stones for reform areas with potentially contentious topics (such as the income tax law or the Audit Bureau Law).

One condition required institutional change (in the end, this was passed through legislative change): condition 4, on the establishment of an appeals system in public procurement. This held up the disbursement of the second tranche. Likewise, this same condition prompted intense discussions and negotiations at the design phase and was redrafted more than once. The inclusion of this condition was relevant, however, with (ii) the EU condition building on the WB reform and promoting an area of reform that was missing in the aforementioned by-law: (ii) the inclusion of a complaints review mechanism in the by-law.

*Table 24. Application of the classification on Jordan*

#### **Type 1. Concrete measures**

##### ***With immediate impacts***

Action 1: (ii and iii) Capacity-building at the Ministry of Finance and developing the domestic market for public securities (notably the secondary market for bonds).

Action 2: Disengagement of the Audit Bureau from pre-audit activities.

Action 9: Access of Syrian refugees to formal employment opportunities in the 18 SEZ.

Action 10: Access of Syrian refugees to vocational training centres.

Action 11: (ii) Selection of contractors for a project aimed at reducing energy consumption in major pumping stations.

***With no immediate impacts***

Action 8: Launch new HEIS, with data for Jordanians and other nationalities.

Action 10: ii) Survey of the educational qualifications, professional profiles and technical skills of the Syrian refugees living in Jordan.

## **Type 2. Actions forming part of a longer reform process**

### **Stepping stone**

Action 1: (ii) Public debt management (strategy).

Action 2: Submission of Audit Bureau Law to parliament.

Action 5: Submission of a new income tax law to parliament.

Action 6: Submission of a new framework on reduction of exemptions in the GST and customs duties to parliament.

Action 11: (i) Adoption of an 'Action Plan to Reduce Water Sector Losses'.

Action 7: Establishment of an operational NUR.

### **New legislative/institutional change**

Action 4: Set up an appeals system in the field of public procurement.

Beyond the type of the conditions, clarity is required on the expected targets. Interviews with the Jordanian national authorities indicated that the interpretation of the expectations in some MFA conditions presented challenges, as did their level of specificity. The formulation of some conditions was generally considered vague (i.e. 'review mechanism') and that lack of clarity hindered mutual understanding of outcome indicators and delayed the second instalment. Some indicators were vague in relation to expected outcomes (e.g. action plan in the water sector). Some interviewees highlighted a need for the evidence required to demonstrate fulfilment of each condition to be made clear at every stage from the MoU onwards, while others stressed the need to spell out precise impact measures.

### **Complementarity/cross-conditionality with other EU and IFI programmes**

This is discussed in the section on coherence.

### ***The extent to which the operation addressed priority areas for reforms, relevance of specific reform areas, and conditionalities***

Interviews confirmed that most MFA conditions were highly relevant to Jordan's needs at the time and were rooted in the country's own reform agenda. While the MoU does not make an explicit reference to 'Jordan's Vision 2025', the long-term strategy of the Jordanian government published in 2015, references to the latter and EU-Jordan mutual commitments were included, along with more focused national strategy plans<sup>246</sup>.

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<sup>246</sup> For example, condition #3 'Consistent with the Audit Bureau's medium-term Strategic Plan 2016-2020'; condition #7 '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'; condition #9 'take



Generally, the remaining MFA conditions were clearly grounded in the ex-ante evaluation in 2016, which listed Jordan's structural reform needs<sup>247</sup>. Some of those measures also built on the reform areas covered in the MoU for the MFA I operation disbursed over 2013-2015. The Commission also pointed to the OA of the financial circuits and procedures carried out ahead of MFA II as one source of evidence in determining priority needs, together with the input of the EU Delegation in Amman.

The selection of conditions was described as an attempt to balance purely technical objectives with those with more of a political goal, without being too prescriptive. One exception was the condition on public procurement, for which getting the right text/content in the law was challenging. The Minister for Public Works and Housing (responsible for public procurement) was reluctant to approve the second-tier review process, proposing the appeals be examined at second instance by a Ministerial Committee (chaired by the Minister himself), which was not compatible with international standards. Later, the Jordanian authorities addressed this issue more broadly, drafting new legislation on public procurement and establishing an appeal system with necessary safeguards for independence and integrity.

The relevance of each targeted reform area is discussed further below. In addition to the principles discussed above (which provide a general framework for design of MFA conditionality), the design and selection of specific conditionality should consider factors such as national ownership and implementation capacity to reduce the risk of implementation deficit and subsequent backtracking. This section should be read in conjunction with the detailed conditionality tables (see Annex 8).

#### Box 21. PFM

With the aim of reinforcing the beneficiary country's governance and protecting EU financial interests, PFM conditions typically feature among the list of MFA conditions. This is in line with the principles in the Joint Declaration of the European Parliament and the Council from August 2013<sup>248</sup>.

MFA II PFM conditions encompassed conditions in three sub-areas: (i) public debt management (ii) audit and (iii) public procurement. All MFA conditions addressed weaknesses identified in the 2016 Operational Assessment<sup>249</sup> and were thus, highly relevant.

#### **Public debt management**

Jordan's gross public debt has been on an upward trajectory since 2008 and in 2016, the debt to GDP ratio rose to a worryingly high level of 95,3%. With a view to enhancing debt management, improving market access conditions and increasing the average maturity of public debt, condition 1 of the MFA required the adoption and publication of the updated Medium-Term Debt Management Strategy, covering both the central government and its agencies; development of capacities of the Public Debt Directorate at the Ministry of Finance; and development of the domestic market for public securities (notably the secondary market for bonds).

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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.'

<sup>247</sup> For Jordan, all targeted areas were chosen from areas indicated as possible areas of conditionality.

<sup>248</sup> Joint Declaration of European Parliament and the Council of 12 August 2013. Available at: <https://eurlex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:32013D0778&from=EN>

<sup>249</sup> Operational Assessment of the financial circuits and procedures in Jordan, September 2016.

## **Audit**

There were two MFA conditions aimed at strengthening the institutional architecture for the audit and control of public finances:

The provisions of the Audit Bureau law in force during the pre-MFA II period (which allowed the Audit Bureau - at the request of the Prime Minister - to conduct pre-audits) 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. MFA condition 2 required the disengagement of the Audit Bureau from pre-audit activities

Condition 3 required the authorities to submit to the Parliament revisions to the Audit Bureau Law strengthening its financial and administrative independence. This reform was fundamentally important as Supreme Audit Institutions can only accomplish their tasks objectively and effectively if they are independent and are protected against outside influence.

## **Public procurement**

Jordan's public procurement system lacked a functioning/effective independent appeals body to address complaints from bidders. As such, if complaints were not addressed bidders had to refer to the courts systems. Condition 4 required the Jordanian authorities to increase transparency in the Public Procurement by establishing an independent appeals system.

### Box 22. Taxation

The broadening of the corporate and personal income tax base has been a longstanding public policy issue in the Jordanian tax system. While the country has been able to collect a proportion of taxes in relation to GDP comparable to its regional neighbours, Jordan typically achieves this through indirect taxes rather direct income taxes. These trends, along with large-scale tax evasion, have constrained total tax revenues relative to the GDP and heightened fiscal spending.

Following MFA I and IMF Stand-By Arrangement (SBA), a new Tax Law was approved in 2014 and enforced in 2015, aiming to increase income tax revenues and decrease fiscal deficit and donor dependency. Despite a modest increase in revenue collection, the law failed to address tax evasion and exemption issues, with only 4-5% of Jordanians taxed directly in 2015, with the remaining tax revenues still generated from indirect taxation.

MFA II taxation conditionality aimed to widen the tax base by lowering exemptions in key sectors and increasing tax collection efforts, while ensuring a sense of equity of the tax. These conditions, in line with the commitments set out in Jordan's Vision 2025, were relevant to ensure macroeconomic and fiscal stability of the Jordanian economy, while addressing multi-level economic pressures and the good functioning of the taxation system. The ambitious nature of the conditions also seemed appropriate, but interviewees pointed to the historical political sensitivity of direct income tax in Jordan as the root of the tense situation that resulted. It was also alleged that these conditions were relevant to building self-reliance and reducing the country's dependence on the donor community.

### Box 23. Employment and trade

Syrian refugees require a work permit to work legally in Jordan. Before 2016, however, Syrian refugees were usually denied the legal right to work in Jordan, with only 10%

obtaining a work permit, due to a variety of extraordinary circumstances. The remainder of Syrian refugee labour was employed in an increasingly informal sector marked by low and declining wages, long working days, and harsh working conditions.

During the London Donor Conference in February 2016, Jordan took an unprecedented step in pledging to provide formal employment opportunities for Syrian refugees in exchange for concessionary interest rates on international loans and trade deals with the EU, among others. Significantly, in July 2016, the EU agreed to simplify the rules of origin - a measure that relaxed the export rules for selected Jordanian manufactured products in order to boost their share in the common market and support Jordanian companies offering formal employment to Syrian refugees (above a certain threshold). This necessitated an evaluation of vocational training needs and provision of technical training to refugees.

Action #9 and #10 of MFA II supported Syrian refugees' access to formal employment and vocational training opportunities, thereby reducing informality and allowing Syrians to contribute to the Jordanian economy. These conditionalities were not only relevant in supporting Jordan in dealing with the refugee crisis, but were instrumental in putting the right infrastructure in place to support trade between Jordan and EU countries. They were also in line with the Jordanian government's commitment to improving the living conditions and resilience of Syrian refugees and host communities.

#### Box 24. Social safety net

With the aim of compensating fuel and energy subsidy eliminations, the Jordanian authorities introduced a cash transfer programme at the end of 2012 to offset the impacts of reform measures on vulnerable groups. As mentioned in the ex-post evaluation of the first MFA operation in Jordan, although this did not directly target poor households, it improved fiscal savings and drove significant progress in the establishment of the NUR. However, the lack of an adequate targeting system to distribute household compensation ultimately made this unsuccessful.

As part of MFA I, condition #4 aimed to improve the NUR through the establishment of an appropriately staffed technical unit to develop and manage the NUR. This was also intended to allow better targeting and expansion of the cash transfer scheme and to support other social assistance programmes, including those run by the National Aid Fund (NAF). Action #7 supported this project by ensuring that significant progress was made.

As of 2010, the Jordanian poverty line was estimated to be at 68 JOD. The Recurring Financial Aid Programme (RFAP), which is the main NAF assistance programme, covered 66% of the estimated poverty line, with the Jordanian authorities expressing their intention to raise the coverage to 77%. Combined with the influx of Syrian refugees, it is likely that the last survey (in 2010) results underestimated the poverty indices. Given this context, action #8 of MFA II required that the Department of Statistics launch a new survey. This was also relevant for better targeting and expansion of the NUR.

Interviews with Jordanian officials and other international donors suggested that the implementation of social safety net schemes remained relevant in Jordan and were aligned with the government's social protection and poverty alleviation strategy for 2019-2025. In this strategy, the NUR is referred to as a high-priority activity for the Jordanian authorities.

#### Box 25. Water sector reform

In May 2013, the IMF issued a report indicating a need to tackle water companies'

losses and bring the energy and water sectors back to cost recovery in Jordan. In response, the Ministry of Water and Irrigation published an updated Action Plan to Reduce Water Sector Losses. This aimed to identify and plan various actions and activities needed to achieve cost recovery that would, in the long-term, reduce government spending and Jordan's budget deficit. The Action Plan fulfilled an IMF benchmark and an agreed milestone with the US for the issuance of Eurobond. The negative impacts of the water sector on Jordan's budget deficit were also reemphasised in the first pillar of the WB Programmatic Energy and Water Sector Reforms DPL in 2018, which advocated for improvement in the financial viability of the electricity and water sectors. In this context, other IFI (e.g. IMF, WB) programmes supported the actions to reform the water sector.

This necessitated further support to improve the financial sustainability and increase efficiency gains within the energy and water sectors in Jordan. Action #11 of MFA II supported the IMF fiscal reform programme objective and the WB water and energy reform objectives, all of which were aligned towards the improvement of the financial situation of the Water Authority of Jordan. This was also relevant in supporting the overall fiscal consolidation efforts by the government. Likewise, as part of the EU-led High-level Mission to Jordan in 2019, successive ambitions were set to further invest in the improvement of solid and water waste management. Interviews with other IFI representatives and government officials highlighted the importance of this reform area, especially in the context of balancing the government's budget in the long-term.

## **6.2 Coherence**

### **6.2.1 Policy framework and principles**

Jordan and the EU have had a close cooperative relationship since 1976, largely in economic development areas. In the late 1990s, stronger trade links and increased political cooperation saw Jordan and the EU sign an AA in 1997<sup>250</sup>, which then entered into force in 2002<sup>251</sup>. The AA was designed to create a long-lasting structure for political dialogue and enhance the relationship between Jordan and the EU, while facilitating greater social opportunities and trade liberalisation.

Since 2004, the EU and Jordan have progressively solidified their productive and constructive partnership under the ENP<sup>195</sup>. This initiative was developed in 2004, and is designed to foster cooperation, stability, and security through the mechanism of reciprocal agreements. Recognising its role in promoting stability and peace in the EU Neighbourhood, the relationship between EU and Jordan was further reinforced under the 2010 EU ENP, the first-ever ENP Action Plan to integrate 'Advanced Status' partnership. In 2016, the relations between the two parties were further strengthened by the adoption of a Partnership Priorities and a Compact, both of which define the EU and Jordan's respective agreements and commitments made at the 2016 London Conference. The Partnership Priorities framework lays out a set of priorities for economic, political, and social reform, with both short and medium-term priorities over a window of three to five years. The discussions of future Partnership Priorities between EU and Jordan for 2021-2027 are ongoing, with the current Partnership Priorities extended until the end of 2021. These agendas are usually funded by the ENI, which will be integrated into the NDICI <sup>252</sup> for the 2021-2027 MFF programming period.

Following the Arab Spring in 2011 and the start of the conflict in Syria, the EU deepened its relationship with Jordan, particularly in areas relating to political change and

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<sup>250</sup> <https://ec.europa.eu/trade/policy/countries-and-regions/negotiations-and-agreements/>

<sup>251</sup> <https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1487944018876&uri=CELEX:32002D0357>

<sup>252</sup> <https://www.consilium.europa.eu/en/press/press-releases/2020/12/18/neighbourhood-development-and-international-cooperation-instrument-coreper-endorses-provisional-agreement-with-the-european-parliament/>

democratisation. The Syrian conflict has significantly impacted Jordan, with estimates ranging from thousands to millions of Syrian refugees fleeing to the country. The signing of the Jordan Compact in 2016 aimed to address this pressing issue by improving the living conditions of refugees and host communities through increased cooperation, humanitarian assistance and targeted development aid.

The EU is an important trade partner to Jordan, with over 14%<sup>253</sup> of its trade as of 2020. In 2011, the EU started negotiating directives for a DCFTA with Jordan, but as of 2020, those negotiations had yet to begin.

Table 25. *EU-Jordan relations*

Jordan
<b>2002</b> - AA comes into force/
<b>2010</b> - Jordan reaches Advanced Status partnership.
<b>2011</b> - Adoption of negotiating directives for DCFTA.
<b>2014</b> - Signing of a Mobility Partnership to better manage mobility and migration between the EU and Jordan.
<b>2016</b> - New EU-Jordan Partnership priorities, as well as an EU-Jordan Compact, are agreed. - - Agreement on the simplification of the rules of origin for EU-Jordan trade.
<b>2018</b> - Extension of the Partnership Priorities until 2020. - Extension of the rules of origin decision.

Source: European Commission (2021) Factograph - EU-Jordan relations.

## **6.2.2 EU assistance to Jordan**

### **6.2.2.1 High-level overview**

With overall financial assistance of EUR 2.2 billion<sup>254</sup>, including EUR 380 million in MFA between 2011 and 2019, Jordan is a major recipient of EU financial support. Between 2016 and 2019, the bulk of the EU's financial assistance to Jordan came through the ENI and in the form of humanitarian aid (HUMA) to help it to cope with the consequences of the Syrian crisis<sup>255</sup>, as well as longer-term resilience measures.

Figure 27 provides an overview of the EU's budget allocations for external assistance to Jordan over the period 2017 -2019.

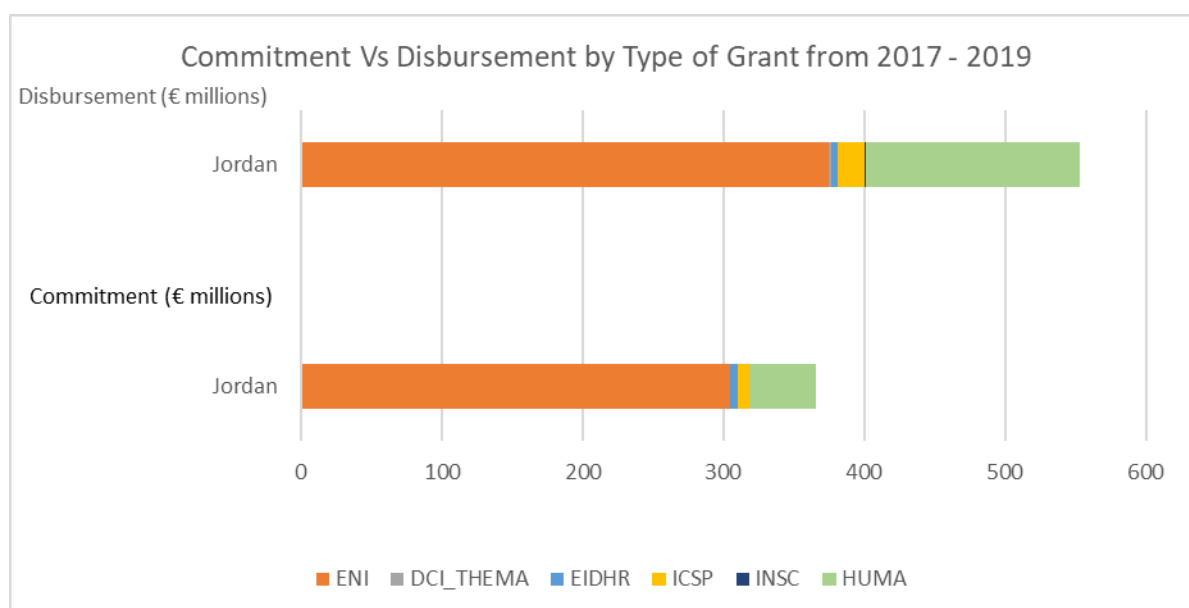
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<sup>253</sup> [Jordan - Trade - European Commission \(europa.eu\)](#)

<sup>254</sup> [https://ec.europa.eu/commission/presscorner/detail/en/IP\\_19\\_5530](https://ec.europa.eu/commission/presscorner/detail/en/IP_19_5530)

<sup>255</sup> The EU aims to address the needs of both refugees and their host communities.

Figure 26. EU budget for external assistance to Jordan, 2017-2019



Source: European Commission annual reports 2017-2019.

In addition to MFA and ENI, Jordan has benefitted substantially from: the 'more for more' incentive scheme, which rewards progress in making reforms; the EU Emergency Trust Fund for Stability which seeks to address the root causes of irregular migration patterns and displaced people; aids to investment; EU thematic programmes (e.g. EIDHR); and the largest EU blending platform under the NIF. Jordan has also benefitted from various internal EU programmes, including Erasmus+ and cooperation in the field of higher education.

The EIB is also a major lender to Jordan, having spent up to EURO 409.7 million in the country between 2015 and 2019. As an EBRD member since 2012, Jordan has received total cumulative investments of EUR 1,377 \$illion<sup>256</sup> from the Bank as of 2020.

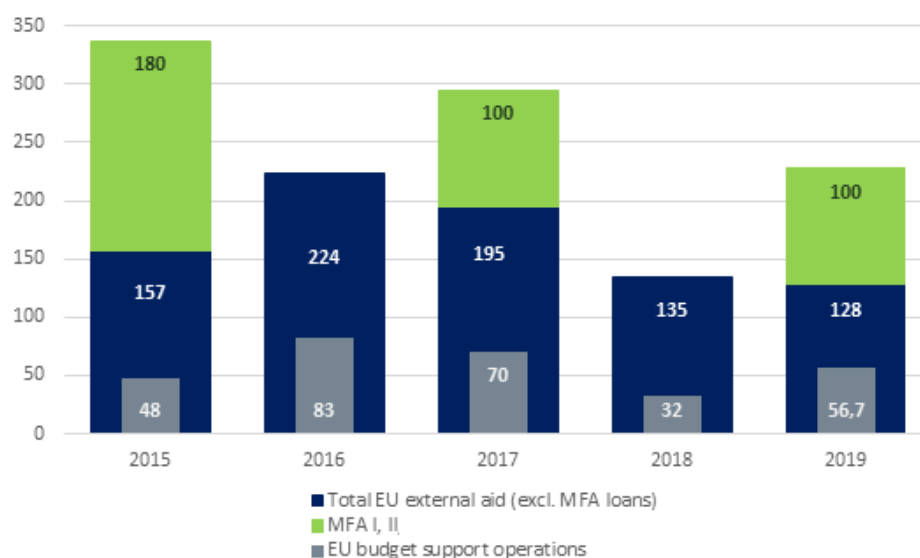
### 6.2.2.2 Overview of assistance provided via budget support programmes (grants) and MFA assistance (loans)

Figure 28 compares MFA disbursements with total EU external aid and EU budget support assistance exclusively. All types of aid and instruments are integral components of the wider assistance package provided to Jordan. Generally, EU MFA programmes are intended to assist partner countries experiencing a balance of payments crisis, whereas budgetary support operations seek to strengthen European Commission partnerships through the promotion of sustainable development, the reduction of inequalities, and consolidation of peace and democracy.

Overall, a total of EUR 839 million EU external aid (excluding MFA loans) was provided to Jordan between 2015 and 2019, while EUR 380 million was disbursed via MFA operations (MFA I and II combined).

<sup>256</sup> <http://www.ebrd.com/jordan.html> and <http://www.ebrd.com/tunisia.html>

Figure 27. EU external aid to Jordan, by type, and MFA, 2015-2019, in EUR million (disbursement data)



Source: annual reports on the implementation of the EU instruments for financing external actions; Budget support: Trends and results reports; ECFIN website for information on MFA (available at: [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](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)).

- Note: The data only refer to external aid financed through the EU budget and do not include bilateral aid from Member States or from the EIB.

Outside of MFA, sectoral financing support programmes were significant, with disbursements made over 2017-2019, including in the areas of employment and PFM, with high potential for synergies with MFA II.

A further exploration of these will be carried out at a more granular level of detail in the next stages of the study.

### 6.2.2.3 Coherence with other programmes and initiatives

#### **Coherence with other EU programmes and initiatives**

##### **MFA I vs MFA II operations**

Table 25 shows both MFA operations in Jordan focused on similar aspects of the same reforms, in several instances. For instance, the tax reforms, social safety net, Audit Bureau and internal control units were covered by both operations, and the conditions focused on similar aspects.

Table 26. Mapping of conditions – MFA I vs MFA II Jordan

MFA I	MFA II
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	<b>MFA I</b>	<b>MFA II</b>
PFM	Implementation of a new Audit Bureau law	Submit revisions to the Law on the Audit Bureau to parliament
	Increase the number of internal controls units	Ensure independent pre-audit activities through disengagement from internal control units
Tax reform	Submission of a new Income Tax Law to parliament	Submit new Income Tax Law to parliament
Social safety net	Establish NUR	Establishment of an operational NUR

Note: Only reform areas addressed in both operations are shown in the table. There were conditions in other areas (Employment and trade, water sector reforms, energy sector reform, investment framework and trade) in one or other operation.

### ***MFA II operations in the context of overall EU budget support package***

A preliminary assessment reveals that the European Commission intended to achieve synergies with other existing EU policies and instruments, notably its budget support programmes, with the aim of making progress in a number of MFA reform areas. This was particularly true for MFA conditions exhibiting some level of cross-conditionality with similar benchmarks in budget support operations, including in programmes pre-dating MFA II.

Synergies were achieved with budget support operations in the areas of employment and PFM. SRC support to Public Finance and Public Administration Reforms (PFPA) worth EUR 47.5 million was provided by the EU through its budgetary support operations during 2014- 2017. This operation contained two benchmarks closely aligned with MFA II PFM conditions, namely, benchmark 1, on the capacity of ICUs to conduct pre-audit activities, and benchmark 2, on the complete withdrawal of the Audit Bureau from pre-audit activities in internal control units by 2017.

The project 'Support to the Private Sector Development in Jordan' was a landmark programme designed to strengthen the economic competitiveness of the private sector. Specific objectives sought to promote social economic inclusion of at-risk groups and enable economic development in underserved areas. The programme had a total budget of EUR 55 million and a timespan from 2016 until 2019, running in parallel with MFA II. The programme's outcomes were closely linked to MFA II conditions on employment and trade, particularly support for the expansion of economic opportunities for Syrian refugees. More specifically, the programme contributed to the issue of the following numbers of work permits to Syrian refugees per year: 45,649 and 46,717 work permits were issued to Syrian refugees in 2017 and 2018, respectively<sup>257</sup>.

<sup>257</sup> 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'.



## **Technical assistance**

In recent years, Jordan has benefitted from EU technical assistance, including in areas relevant to the MFA operation. Throughout the time of MFA I for example, the Audit Bureau received SIGMA assistance in the preparation of its Strategic Plan, and from twinning project assistance from 2013 to 2015. The extent to which TA projects were available to support the reforms promoted by MFA II operations during 2016-2019 in Jordan will be confirmed in the final steps of the study.

### **6.2.2.4 Coherence with IMF and WB programmes**

The decision to grant MFA II to Jordan was explicitly linked to the earlier approval of an IMF EFF arrangement (EFF) worth up to USD 723 million, or 150% of Jordan's quota at the time of its approval<sup>258</sup>.

Ratified in August 2016 for a 36-month duration, the IMF EFF was initially supposed to be subject to six reviews, but only two were carried out, amid rising social tensions over various fiscal and tax reforms. Only 45% of the initial financial agreement was disbursed.

Jordan's 10-year framework for economic and social policies (Jordan's Vision 2025), endorsed by the national authorities, served as the foundation for the reform agenda attached to the 2016 IMF EFF, which aimed to improve fiscal consolidation while promoting broad structural reforms to achieve inclusive growth. The reforms promoted seemed to be largely congruent with agreements reached between the Jordanian authorities and the European Commission<sup>259</sup>.

With over USD 2.5 billion in financial commitments in Jordan between 2016 and 2019, most MFA conditionalities had synergies with WB programmes during the time under review. For instance, the WB DPL Energy and Water Sectors' (2016-2018) objectives were largely consistent with the rationale underpinning the MFA II water sector conditionality. Two successive WB *Equitable Growth and Job Creation Development Policy Financing* projects (DPL 1 and 2), approved in 2018 and 2019, respectively, supported reforms in MFA II-related areas, including creating more flexible and integrated labour markets for Jordanians and refugees, and improving fiscal sustainability.

The WB's Programme-for-Results operations known as 'Economic Opportunities for Jordanians and Syrian Refugees' was similarly closely aligned with MFA II conditions in the area of employment and trade. This programme covered the period 2016-2020 and facilitated Syrian refugees' access to formal employment opportunities (among other things).

The wider donor community and bilateral organisations flagged a lack of coordination, articulation and sharing of information, particularly in areas of cross-conditionality. This is regarded as having weakened the weight of the EU (via MFA) in reform implementation compared to a more coherent and concerted approach to setting the reform agenda. The design of MFA, and particularly MFA II, was deemed insufficiently coordinated with other development partners (beyond the IMF and WB, but not with development partners), especially where the former led the dialogue in the reform areas promoted by MFA II.

Table 26 indicates the extent to which the reforms driven by the EU via the MFA were supported by the IMF and the WB through their respective support programmes.

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<sup>258</sup>IMF Executive Board Approves USD 723 million Extended Arrangement Under the Extended Fund Facility for Jordan, August 2016. 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>

<sup>259</sup> To be confirmed during the evaluation. IMF prior actions and structural benchmarks have been downloaded from the MONA database.

Table 27. Detailed cross-conditionality with the IMF and WB

Condition/area	Donors involved along with the EU
<b>PFM</b>	
Action 1 [Public debt sustainability]/PFM	IMF (one of the structural benchmarks)
Action 2 [Internal control units]/PFM	EU only
Action 3 [Law on the Audit Bureau]/PFM	EU only
Action 4 [Public procurement]/PFM	EU only
<b>Tax reforms</b>	
Action 5 [Law on Income Tax]/Tax	IMF (one of the structural benchmarks)
Action 6 [Tax exemptions]/Tax	IMF (one of the structural benchmarks) WB (DPL1 FY18-FY20)
<b>Social safety net</b>	
Action 7 [NUR]/social safety net	WB (provided technical support under the Deauville Partnership's Transition Fund)
Action 8 [HEIS]/social safety net	WB (provided technical assistance, MENA Transition Fund)
<b>Employment and trade</b>	
Action 9 [Employment opportunities for Syrians]/ employment and trade	WB (provided technical assistance, WB support programmes)
Action 10 [Vocational training]/employment and trade	WB (provided technical assistance, WB support programmes)
<b>Water Sector reforms</b>	
Action 11 [Water sector]/water sector reform	WB (DPL Energy and Water Sectors 2016-2018+ provided technical assistance through WB support programmes, including MENA Transition Fund) IMF (one of the structural benchmarks)

Source: ICF review of documentation.

## **6.3 Effectiveness**

### **6.3.1 Part 1: Role of MFA in easing external financing constraints, alleviating Jordan's balance of payments and budgetary needs, and strengthening the exchange rate**

A two-step approach was used to assess the role of MFA II in promoting macroeconomic stability, easing external financing constraints, and alleviating Jordan's balance of payments and budgetary needs:

- Step 1: Examining the observed macroeconomic outcomes;
- Step 2: Assessing the role and contribution of the MFA II operation to observed outcomes.

#### **6.3.1.1 Step 1: Examining observed outcomes**

This sub-section describes the evolution of key macroeconomic variables in Jordan over the 2017-2019 period. It comprises an analysis of GDP growth, the external sector, public sector finances, inflation, (un)employment, and the situation in the banking sector.

#### **6.3.2 Output and growth**

Following a decade of strong growth, the Jordanian economy contracted considerably from 2009 onwards, largely due to the global and regional downturn. Signs of recovery, although weak, started to appear in 2014. This modest improvement in economic activity was short-lived, however, and real GDP growth has been sluggish since 2015.

This slowdown in economic activity persisted in the years that followed. More specifically, economic growth remained constrained by weak domestic demand<sup>260</sup>. Jordan's real GDP growth drifted around a tepid 2.0 per cent growth rate between 2017 and 2019. Growth was nonetheless supported by the services sector (supply side), which contributed to 1.3 per cent of GDP growth, followed by industry (0.5 per cent to GDP growth) and agriculture (0.1 per cent to GDP growth). The Jordanian economy also benefitted from a partial rebound in tourist arrivals and receipts. Between 2017 and 2019, tourist arrivals grew by 17 per cent, while tourist receipts rose from USD 5.5 billion to USD 6.9 billion (+25%). Stronger performance in the tourism industry boosted net exports, which in turn supported growth from the demand side. The total value of exports rose from USD 7.5 billion in 2017 to USD 8.3 billion in 2019<sup>261</sup>. On the other hand, imports fell by about 5.0 per cent over the period<sup>262</sup>.

Figure 29 shows the year-on-year change to real GDP over the period 2006-2019.

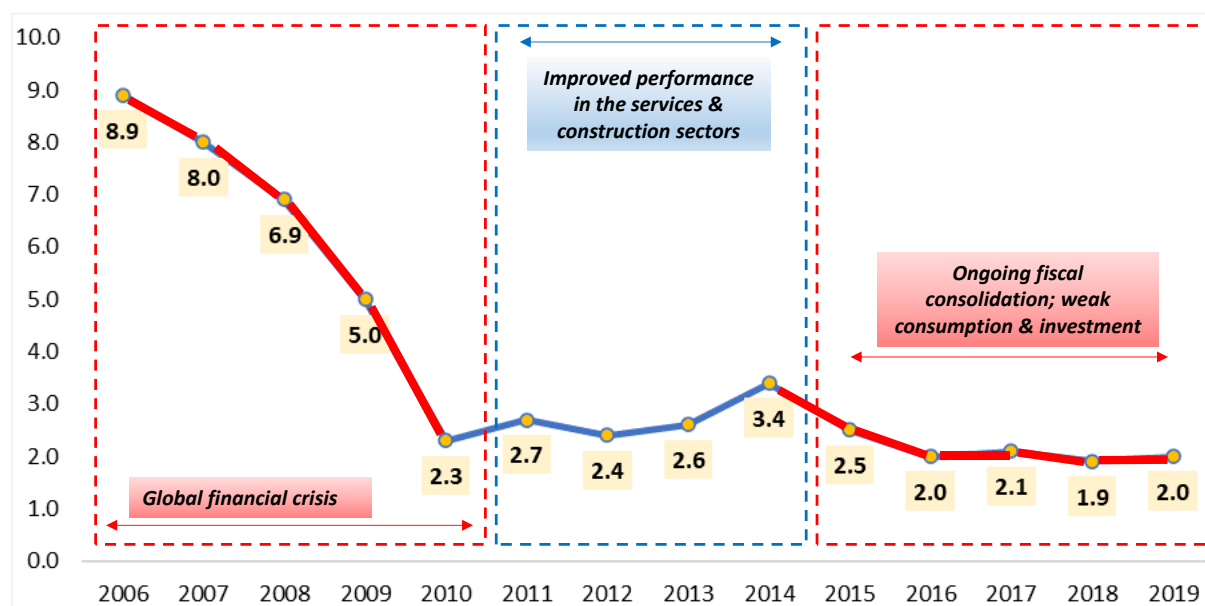
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<sup>260</sup> World Bank (2020). 'Jordan Economic Monitor – Weathering the storm.' Available at: <https://documents1.worldbank.org/curated/en/895901594653936142/pdf/Jordan-Economic-Monitor-Spring-2020-Weathering-the-Storm.pdf>

<sup>261</sup> UN Comtrade data.

<sup>262</sup> UN Comtrade data.

Figure 28. Real GDP growth (in %), 2006-2019



Source: IMF data (indicator: 'real GDP growth (annual percentage change)').

### 6.3.3 Inflation

Inflation remained stable until the global financial crisis in 2008, which brought changing international prices. An upward trend in the general price level persisted in the years that followed, except between 2014 and 2016, during which time Jordan witnessed a sharp, persistent decline in food and transportation prices. Inflation hovered at about -1.0%<sup>263</sup>.

Inflation started to accelerate from mid-2016, reaching 3.3% in 2017 and 4.5% in 2018<sup>264</sup>. The recovery in global and oil prices, together with the Jordanian authorities' decision to increase fuel and cigarette excises and to remove GST exemptions and bread subsidies somewhat explain these inflationary pressures. However, as the impact of these shocks started to fade and Jordan benefitted from positive food and electricity price shocks<sup>265</sup>, inflation eased, reaching about 1.0% by end-2019<sup>266</sup>.

Figure 30 shows the change in Jordan's annual inflation rate over the period 2006-2019.

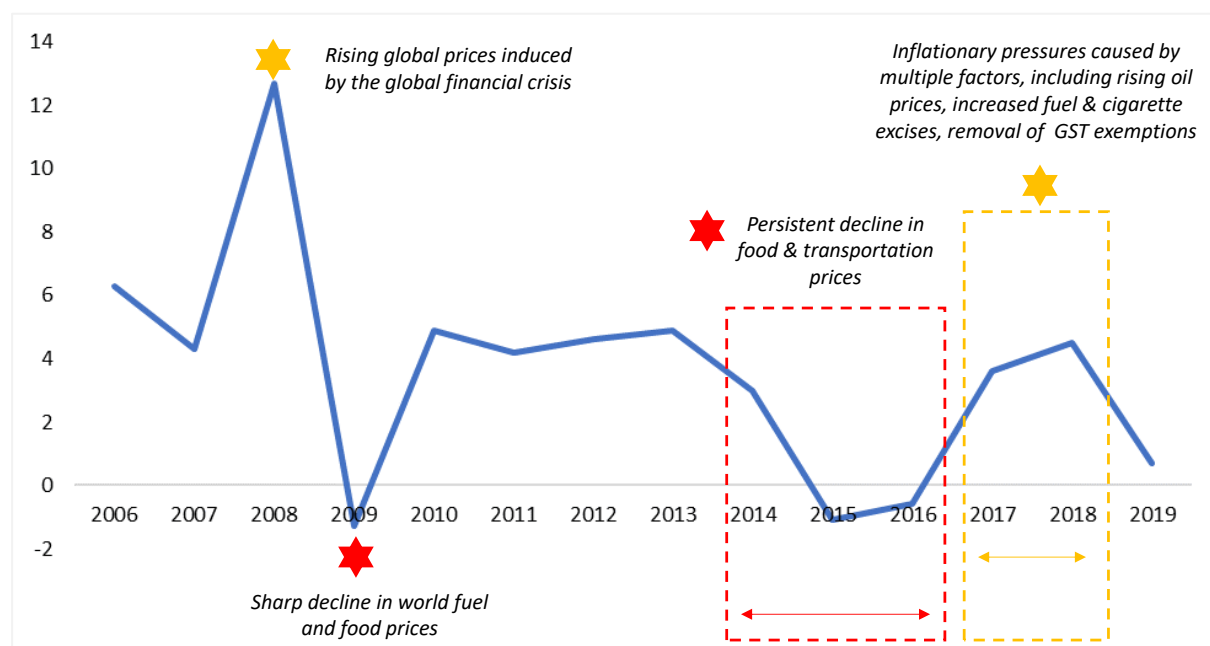
<sup>263</sup> IMF Country Report June 2014.

<sup>264</sup> CNJ data. Available at: <http://statisticaldb.cbj.gov.jo/?node=bzR1d0FBMzJ4RzA9>

<sup>265</sup> IMF Country Report May 2019.

<sup>266</sup> IMF data.

Figure 29. Annual inflation rate (in %), 2006-2019



Source: IMF and CBJ data.

### 6.3.4 Labour market and employment

Jordan has experienced a chronic unemployment problem. Over the period 2000-2010, the unemployment rate averaged 14.0%<sup>267</sup> and was particularly high among young people. In the years that followed, the labour market remained weak. With a further tightening of fiscal policy (which reduced the public sector's ability to absorb labour) and persistent regional conflicts undermining investor sentiment, tourism and trade flows, growth stalled. The decline in economic activity significantly reduced employment opportunities, leading to a worsening of the overall unemployment rate over the 2011-2016 period.

Since 2017, labour market conditions have remained challenging. Between 2017 and 2019, on the back of adverse external shocks and persistently subdued growth, Jordan's overall unemployment rate grew from 18.3% (2017) to 19.1% (2019)<sup>268</sup>. More specifically, employment rates among women and young people deteriorated. The proportion of women (of the female labour force) who were unemployed averaged 25.0% over the period 2017-2019 (compared to 22.0% between 2014 and 2016)<sup>269</sup>. Youth unemployment, on the other hand, was up from 36.2% in 2017<sup>270</sup> to 37.3% by end-2019. Youth unemployment among the female labour force was much higher (averaging 50.0% in 2017-2019) than for their male counterparts (averaging 34.3% in the same period)<sup>271</sup>.

<sup>267</sup> IMF data.

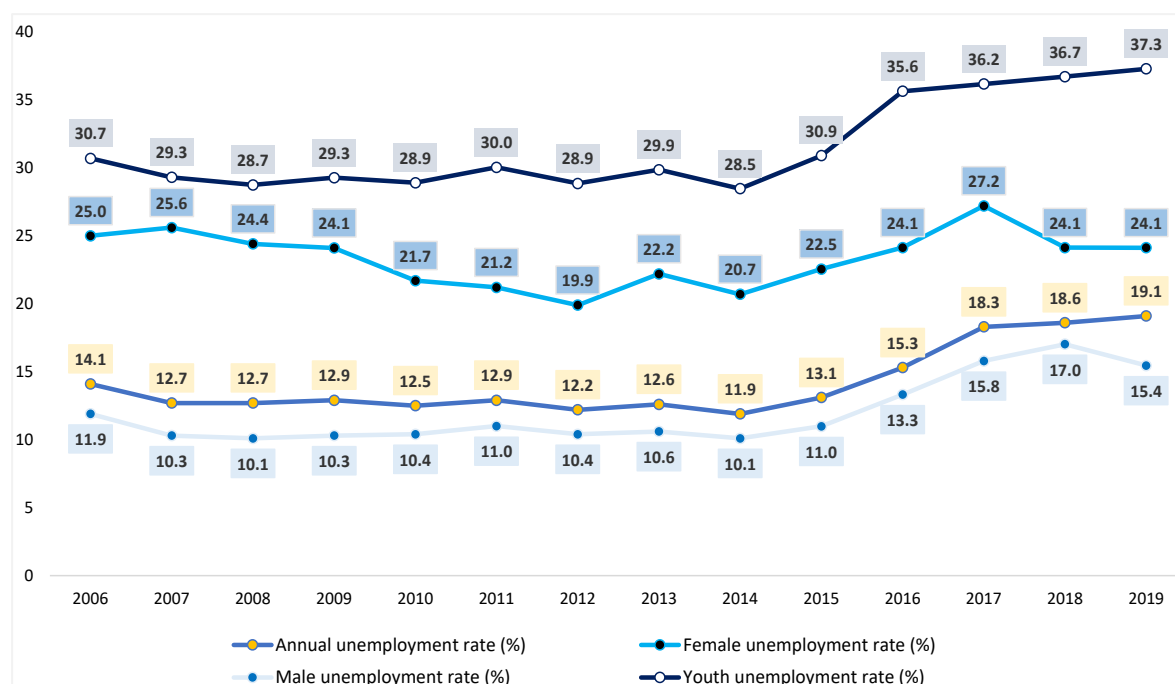
<sup>268</sup> IMF data.

<sup>269</sup> WB data ('unemployment, female (% of female labour force) (national estimate)').

<sup>270</sup> WB data ('unemployment, youth total (% of total labour force ages 15-24)').

<sup>271</sup> WB data ('unemployment, youth male (% of male labour force ages 15-24)' and 'unemployment, youth female (% of female labour force ages 15-24)').

Figure 30. Trends in overall unemployment, female unemployment, male unemployment, and youth unemployment (in %), 2006-2019



Sources: IMF data ('unemployment rate (percent)'); WB data ('unemployment, female (% of female labour force) (national estimate)'; 'unemployment, male (% of male labour force) (national estimate)'; 'unemployment, youth total (% of total labour force ages 15-24) (modelled ILO estimate)').

### 6.3.5 Public finances: fiscal and debt developments

Since the 1990s, Jordan has experienced growing budget deficits, along with a high and unsustainable debt burden<sup>272</sup>. Until the mid-2000s, sluggish growth, declining revenue collections and rigid expenditure contributed to a persistently widening fiscal deficit. Over the period 2011-2019, this averaged to 7.0 per cent of GDP<sup>273</sup>. During that period, the persistence of high deficits and sluggish growth stalled efforts to contain the debt-to-GDP ratio, which increased from 64.6% in 2011 to 95.1% in 2016<sup>274</sup>. Fiscal consolidation has thus been at the forefront of policy discussions in view of restoring fiscal and public debt sustainability.

Jordan's fiscal position started to improve from late 2016, with the pace of fiscal consolidation remaining strong, albeit slow, in 2017. Jordan's fiscal deficit narrowed significantly, from 10.2 per cent (of GDP) in 2014 to 5.0 per cent and 3.2 per cent in 2016 and 2017, respectively<sup>275</sup>. The implementation of the electricity sector strategy, along with a sharp fall in generation costs, contributed to bringing NEPCO back to cost recovery by late 2015, which was an important contributing factor to Jordan's improved fiscal balances over 2016-2017. Nevertheless, the government's primary deficit improved at a slower pace, owing to weaker nominal GDP growth, continued refugee-related spending pressures, and limited success in raising tax revenue<sup>276</sup>. Coupled with sustained losses from the Water Authority, these allowed gross public debt to reach 95.3 per cent

<sup>272</sup> IMF Country Report May 2004. Available at: <https://www.imf.org/external/pubs/ft/scr/2004/cr04121.pdf>

<sup>273</sup> IMF data.

<sup>274</sup> IMF data.

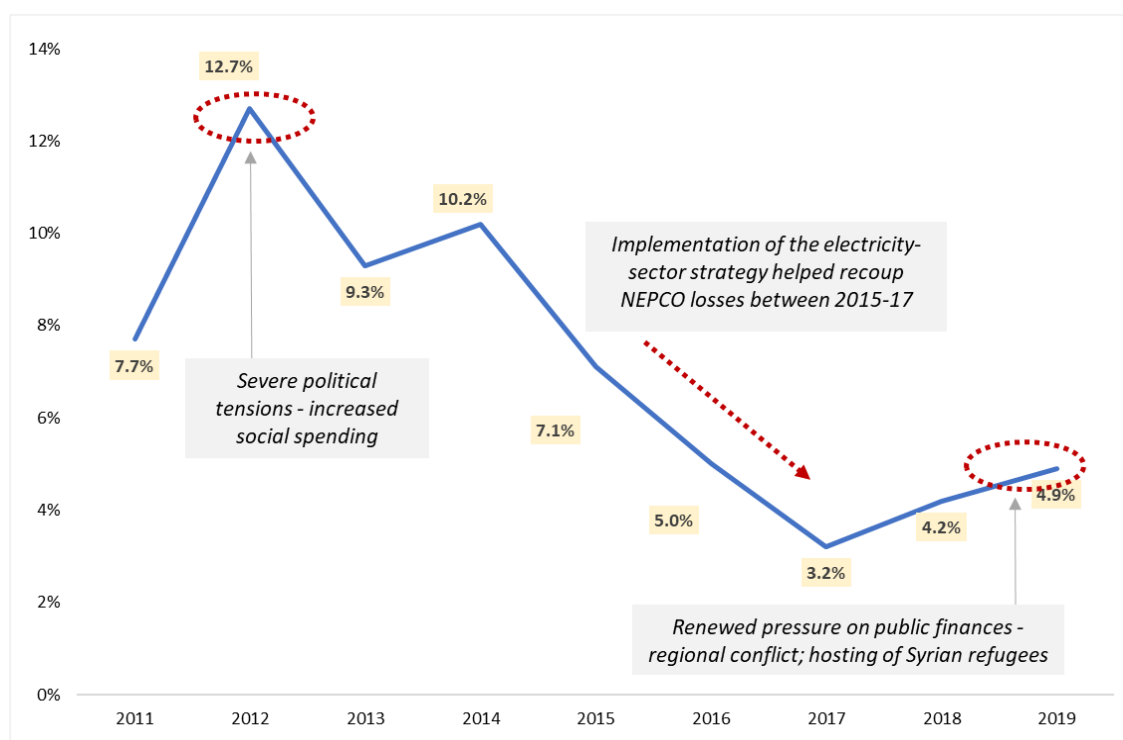
<sup>275</sup> Ministry of Finance Jordan data. Available at: [https://mof.gov.jo/ebv4.0/root\\_storage/ar/eb\\_list\\_page/%D9%83%D8%A7%D9%86%D9%88%D9%86\\_%D8%AB%D8%A7%D9%86%D9%8A\\_2020.pdf](https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%83%D8%A7%D9%86%D9%88%D9%86_%D8%AB%D8%A7%D9%86%D9%8A_2020.pdf)

<sup>276</sup> IMF Country Report July 2017.

of GDP at end-2017 (up from 95.1 per cent at end-2016)<sup>277</sup>. Fiscal slippages continued in 2018. Fiscal performance remained under pressure, largely due to poor tax revenue performance and expenditure rigidities. The overall fiscal deficit stood at 4.2 per cent in 2018<sup>278</sup>. Despite fiscal deteriorations, Jordan's public debt was contained (through a drawdown of treasury deposits) in 2018<sup>279</sup>, when it stood at 94.4 per cent of GDP<sup>280</sup>. Fiscal consolidation also proved difficult to maintain in 2019. Regional conflicts and the hosting of Syrian refugees weighed severely on social conditions and public finances<sup>281</sup>. Public debt thus remained elevated, although fairly stable, at 97.4 per cent of GDP<sup>282</sup>.

Figure 32 and Figure 33 below show fiscal and debt developments in Jordan from 2011 to 2019.

Figure 31. Jordan's fiscal deficit (as a percentage of GDP), 2011-2019



Note: public/ fiscal deficit includes the primary balance, as well as primary balances of NEPCO and WAJ. Source: IMF Country Reports for Jordan

<sup>277</sup> Ministry of Finance Jordan data. Available at: [https://mof.gov.jo/ebv4.0/root\\_storage/ar/eb\\_list\\_page/%D9%83%D8%A7%D9%86%D9%88%D9%86\\_%D8%AB%D8%A7%D9%86%D9%8A\\_2020.pdf](https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%83%D8%A7%D9%86%D9%88%D9%86_%D8%AB%D8%A7%D9%86%D9%8A_2020.pdf)

<sup>278</sup> Ministry of Finance Jordan data. Available at: [https://mof.gov.jo/ebv4.0/root\\_storage/ar/eb\\_list\\_page/%D9%83%D8%A7%D9%86%D9%88%D9%86\\_%D8%AB%D8%A7%D9%86%D9%8A\\_2020.pdf](https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%83%D8%A7%D9%86%D9%88%D9%86_%D8%AB%D8%A7%D9%86%D9%8A_2020.pdf)

<sup>279</sup> IMF Country Report May 2019.

<sup>280</sup> Ministry of Finance Jordan data. Available at: [https://mof.gov.jo/ebv4.0/root\\_storage/ar/eb\\_list\\_page/%D9%83%D8%A7%D9%86%D9%88%D9%86\\_%D8%AB%D8%A7%D9%86%D9%8A\\_2020.pdf](https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%83%D8%A7%D9%86%D9%88%D9%86_%D8%AB%D8%A7%D9%86%D9%8A_2020.pdf)

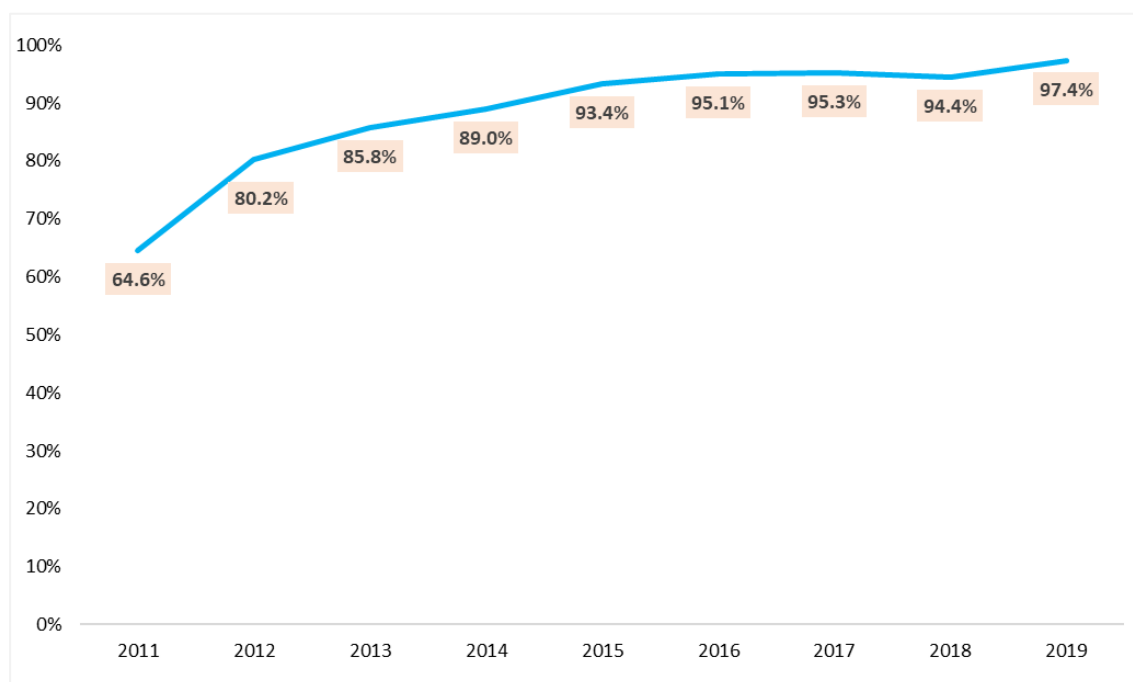
<sup>281</sup> IMF Country Report April 2020.

<sup>282</sup>

Ministry of Finance Jordan data. Available at: [https://mof.gov.jo/ebv4.0/root\\_storage/ar/eb\\_list\\_page/%D9%83%D8%A7%D9%86%D9%88%D9%86\\_%D8%AB%D8%A7%D9%86%D9%8A\\_2020.pdf](https://mof.gov.jo/ebv4.0/root_storage/ar/eb_list_page/%D9%83%D8%A7%D9%86%D9%88%D9%86_%D8%AB%D8%A7%D9%86%D9%8A_2020.pdf)



Figure 32. Jordan's public debt (as a percentage of GDP), 2011-2019



Note: gross public debt includes central government debt and debt of NEPCO and WAJ.  
Source: IMF country reports for Jordan

In response to ongoing socioeconomic pressures, the Jordanian government launched a national dialogue on income tax reform in 2018. This ultimately led to parliament's passage of a reform to support public finances and contribute to reducing public indebtedness<sup>283</sup>. The reform was approved in December 2018 and broadens the personal income tax (PIT) and corporate income tax (CIT) bases, reduces arbitrage opportunities between PIT and CIT, and sets the stage for greater and much-needed focus on reducing tax evasion. Revenue estimates suggest that the proposed measures will yield 0.5% of GDP in 2019 and 0.8% over the medium term<sup>284</sup>.

### 6.3.5.1 Sovereign debt assessment and grading

Jordan maintained a B1 rating throughout the 2017-2019 period. The last upgrade from Moody's dated back to August 2003. This remained unchanged until June 2013, when Moody's downgraded Jordan's rating to B1.

In 2017, Jordan's credit profile was heavily constrained by high public debt, slower grant receipts, persistent external imbalances and elevated geopolitical risk<sup>285</sup>. Moody's nevertheless recognised Jordan's credit strengths, including a strong institutional framework compared to its regional peers, and the government's (continued) fiscal consolidation efforts, notably the implementation of various revenue measures (e.g. removal of exemptions, income tax reform) that were expected to compensate for the gradually declining foreign grant receipts. Despite this, Jordan's overall low fiscal strength drove the agency's decision to maintain a B1 (stable) rating. The 'stable' outlook on Jordan's sovereign rating reflected Moody's view that the government would continue to pursue fiscal consolidation in view of reducing the country's high debt metrics over the medium-term.

<sup>283</sup> IMF Country Report May 2019.

<sup>284</sup> IMF Country Report May 2019.

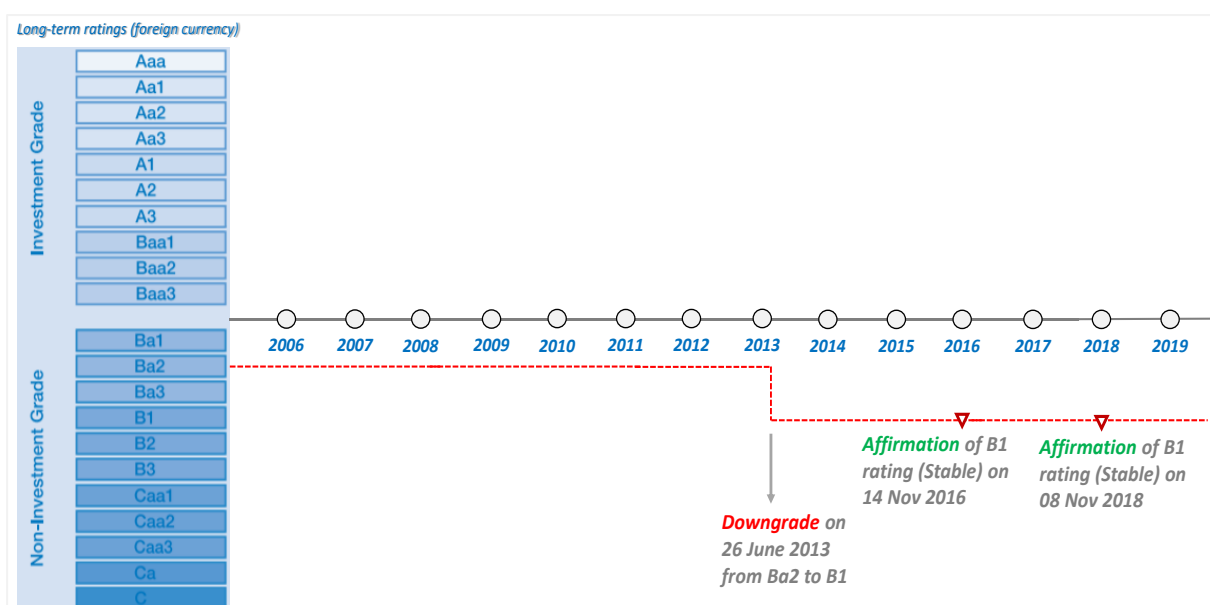
<sup>285</sup> Moody's (2017). 'Jordan's credit profile challenged by high public debt and external imbalances.' Available at: [https://www.moody.com/research/Moodys-Jordans-credit-profile-challenged-by-high-public-debt-and-PR\\_375988](https://www.moody.com/research/Moodys-Jordans-credit-profile-challenged-by-high-public-debt-and-PR_375988)



The decision by Moody's to affirm Jordan's B1 ratings in 2018 reflected credit challenges posed by a rapidly deteriorating global financing and trade environment, large CADs, declining foreign exchange reserves, and rising domestic social pressures<sup>286</sup>. However, Moody's assessment also accounted for the government's proven commitment to fiscal consolidation, strong international support, and reform of Jordan's energy sector (including changes in energy sources) intended to reduce its vulnerability to higher oil prices. The stable outlook reflected Moody's view that the planned fiscal/ tax reforms would set the government's elevated debt-to-GDP ratio on a path to gradually decline in the coming years against the risk that weak growth and high unemployment could cause delays or partial reversals in the fiscal consolidation strategy. The stable outlook also balanced better prospects for growth in merchandise exports and tourism receipts, due to the improving security situation in Iraq and Syria, against the balance of payments and external liquidity pressures posed by higher oil prices and rising global interest rates.

Moody's maintained a B1 (stable) credit profile for Jordan in 2019. This rating reflected the government's commitment to fiscal consolidation and structural economic reforms, as well as strong international (financial) support<sup>287</sup>. In addition, the rating factored in credit challenges posed by weak growth, high unemployment, large CADs, and soaring government debt in the context of rising domestic social pressures and slowing global growth. Moody's indicated the possibility of a rating upgrade in the coming year(s), provided Jordan achieved a lasting decline in its public debt.

Figure 33. Moody's sovereign ratings for Jordan, 2006-2019



Sources: Moody's. Available at: <https://www.moodys.com/credit-ratings/Jordan-Government-of-credit-rating-600018522/ratings/view-by-class>

### 6.3.6 External/balance of payments position

The value of exports has grown over the years, albeit to a lower extent than the value of imports. Jordan has run large trade deficits, averaging 30.0% and 24.0% over the periods 2000-2008 and 2009-2016, respectively.

<sup>286</sup> Moody's (2018). 'Moody's affirms Jordan's B1 ratings, maintains stable outlook.' Available at: [https://www.moodys.com/research/Moodys-affirms-Jordans-B1-ratings-maintains-stable-outlook--PR\\_389523](https://www.moodys.com/research/Moodys-affirms-Jordans-B1-ratings-maintains-stable-outlook--PR_389523)

<sup>287</sup> Moody's (2019). 'Jordan's credit profile supported by government's commitment to fiscal consolidation and structural reform.' Available at: [https://www.moodys.com/research/Moodys-Jordans-credit-profile-supported-by-governments-commitment-to-fiscal--PBC\\_1204730](https://www.moodys.com/research/Moodys-Jordans-credit-profile-supported-by-governments-commitment-to-fiscal--PBC_1204730)

The 2017-2019 period was marked by a gradual and slow recovery in Jordan's external account position. Table 27 presents the evolution of selected balance of payments metrics for Jordan from 2017 to 2019. A more detailed discussion follows.

Table 28. Jordan's balance of payments position, selected metrics, 2017-2019

Selected metrics	2017	2018	2019
<b>Current account</b>			
Including grants – in USD million	-4,399	-2,972	-1,232
Excluding grants – in USD million	-5,496	-4,495	-2,563
Balance (inc. grants) - % of GDP	-10.8%	-7.0%	-2.8%
Balance (exc. grants) - % of GDP	-13.5%	-10.6%	-5.9%
<b>Trade balance – in USD million</b>			
Exports	7,522	7,757	8,325
Imports	18,232	18,078	17,224
Energy imports	3,044	3,753	3,062
Non-energy imports	15,188	14,325	14,162
<b>Services account</b>			
Travel receipts – in USD million	4,645	5,256	5,794
<b>Transfers</b>			
Workers' remittances inflows – in USD million	3,345	3,308	3,338
<b>Capital and financial account</b>			
Direct investment (net) – in USD million	2,026	964	876
Portfolio investment (net) – in USD million	954	-183	-1,061
<b>International reserves</b>			
CBJ Gross foreign reserves, end-period – in USD million	15,581	14,576	15,401

Source: CBJ, in World Bank (2020). 'Jordan Economic Monitor – Weathering the storm.'

In 2017, the CAD remained high, despite falling oil prices. The current account balance (including grants) reached almost 11.0% of GDP (see Table 27). While lower oil prices initially improved Jordan's current account and domestic demand, their longer-term impact was to reduce exports, tourism and remittances from the GCC countries<sup>288</sup>. Jordan's international reserves remained adequate, however, and were judged comfortable compared to imports needs, at over 240 days (or eight months) worth of total imports of goods and services.

Further improvements were observed in 2018. Jordan's CAD fell from USD 4.4 billion in 2017 to USD 3.0 billion in 2018, on the back of a narrower trade deficit. As such, exports increased by 3.0 per cent in value, while non-energy imports fell by almost 7.0 per cent. The recovery in exports was driven by a rebound in trade with major trade partners, such as the US and India, as well as the gradual re-opening of trade routes with Iraq<sup>289</sup>. In addition, tourist receipts remained on trend, increasing by close to 15.0 per cent in 2018 and contributing to a boost in exports of services. Conversely, inflows remained sluggish. Net FDI declined by almost 53.0 per cent in 2018, while growth in remittances decelerated to 1.1 per cent, partially reflecting the economic slowdown in the GCC countries. Overall, Jordan's exchange market pressure, high dollarisation rates, and low

<sup>288</sup> IMF Country Report July 2017.

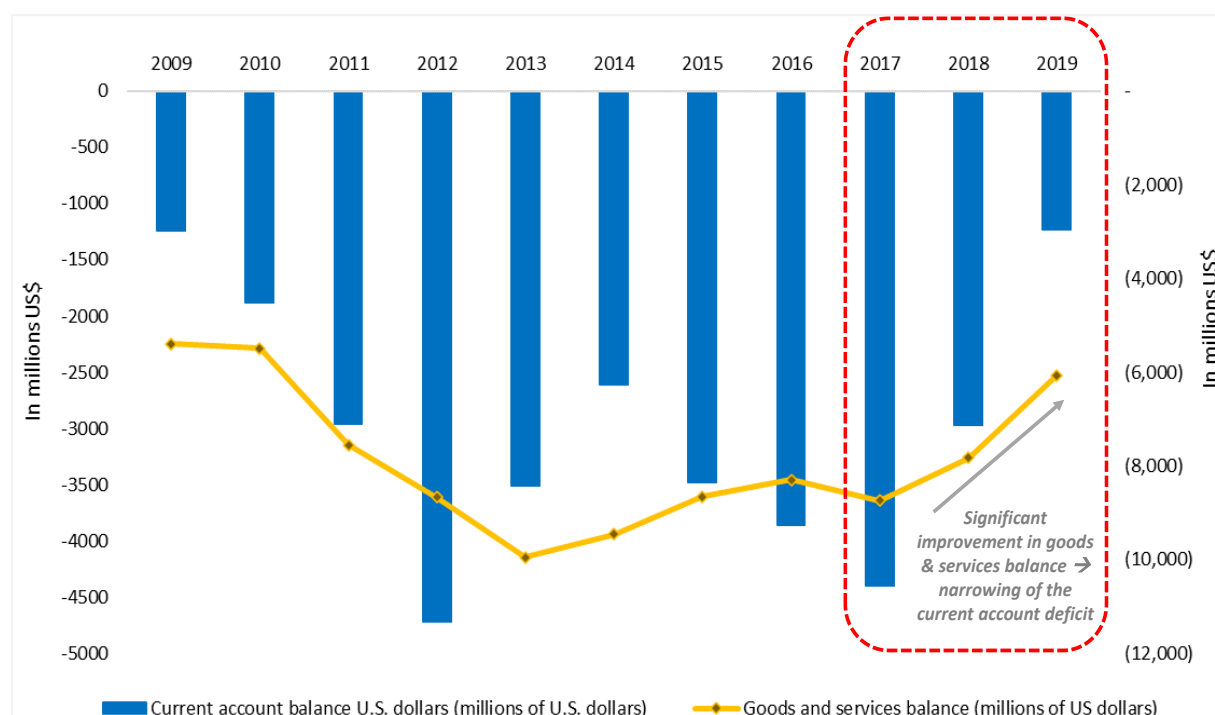
<sup>289</sup> World Bank (2018). 'Jordan Economic Monitor'.

foreign inflows imposed downward pressures on foreign reserves. These declined to USD 14.58 billion by end-2018, 6.0 per cent lower than end-2017 levels and the lowest recorded since July 2013.

Jordan's external account position indicated substantial improvement in 2019 compared to 2018. This improvement was largely explained by a significant reduction in the CAD, driven by considerable improvements in the trade balance of goods and services<sup>290</sup>. Recovery in external demand, along with improved production in export-oriented sectors, helped to boost exports in 2019, growing by 7.3 per cent in 2019 (see Table 27). More specifically, the services account continued to perform well in 2019, mainly on account of robust growth in travel receipts. These grew by 10.2 per cent in 2019, while the overall services balance posted an increase of 26.4 per cent<sup>291</sup>. On the other hand, both energy and non-energy related imports declined in 2019. Total imports declined by close to 5.0 per cent in 2019 (see Table 27). The overall improvement in Jordan's balance of payments position was reflected in the build-up of the CBJ's foreign exchange reserves position in 2019. CBJ gross foreign reserves increased by USD 825 million in 2019, reaching USD 15.4 billion at year end (see Table 27).

Recent improvements in the goods and services balance and the CAD are shown in Figure 35.

Figure 34. Jordan's current account balance and associated components, 2009-2019



Sources: IMF and WB data.

### 6.3.7 Banking/financial sector

For many years, Jordan's banking sector has been the strongest segment of its financial services industry and one of its largest economic sectors. Despite ongoing regional volatility and slow GDP growth, Jordan's banking sector has remained resilient, stable and attractive to investors.

Over the period 2017-2019, Jordan's banking system remained well-capitalised, liquid, and profitable. In 2017, the sector's capital adequacy ratio stood at 19.0 per cent, well

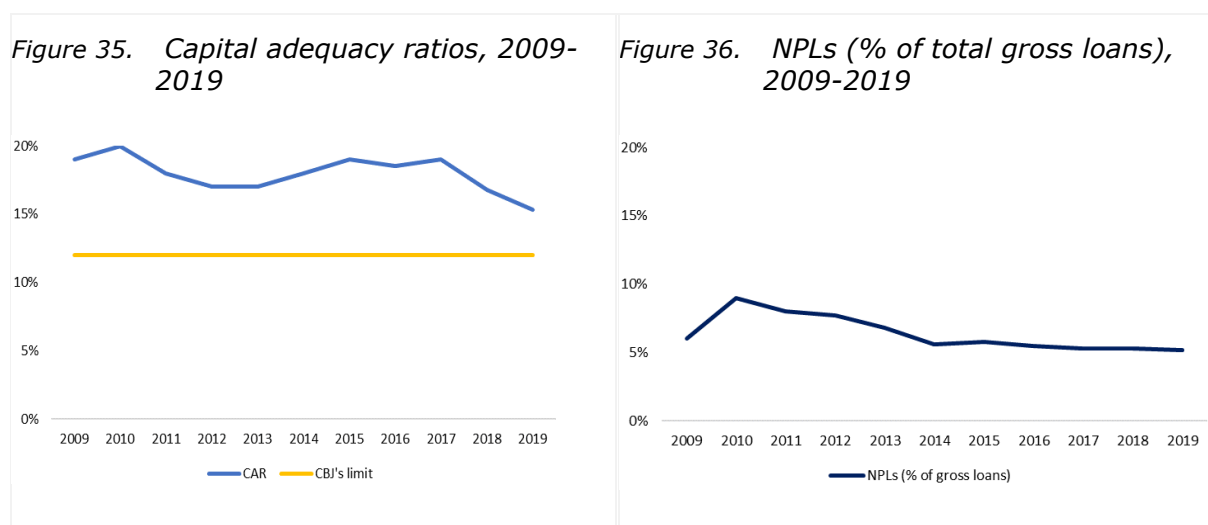
<sup>290</sup> IMF Country Report May 2019.

<sup>291</sup> World Bank (2020). 'Jordan Economic Monitor'.

above the regulatory minimum of 12.0 per cent<sup>292</sup>. NPLs were gradually declining, accounting for 5.3 per cent of total gross loans in 2017, down from 5.8 per cent and 5.5 per cent in 2015 and 2016, respectively<sup>293</sup>. Overall, banks enjoyed adequate liquidity and healthy profitability. Stress tests conducted by the CBJ confirmed the sector’s resilience and ability to tolerate sizeable shocks, such as a significant drop in GDP growth, increased NPLs, fall in stock prices, depreciation of the Jordanian dinar, and/or substantial withdrawal of deposits. The CBJ nevertheless increased monitoring of the potential impact of higher interest rates and rapid increase in private sector credit. Credit facilities extended by licensed banks to the private sector grew by nearly 10.0 per cent, in line with increases observed since 2015<sup>294</sup>.

In 2018 and 2019, key financial soundness indicators remained strong and continued to perform well. Capital adequacy stood at 17.2 per cent, while NPLs continued to decline, reaching about 5.2 per cent of total gross loans in 2019. High and rising levels of capitalisation and profitability boosted the banking sector’s resilience still further. This was also facilitated by the introduction of International Financial Reporting Standard (IFRS 9) provisioning standards and the improved supervision of insurance companies and microfinance institutions, strengthening their finances<sup>295</sup>. Private sector credit continued to rise, albeit at a slower pace, growing by an average of 5.0 per cent in 2018 and 2019 (compared to an average of 10.0 per cent in 2016 and 2017). The CBJ reiterated its commitment to monitoring the banking sector more closely, particularly asset quality and - in the context of (rising) credit to households - the type and quality of lending<sup>296</sup>.

**Figure 36 and Figure 37** show the evolution of selected financial soundness indicators and credit facilities extended to the private sector in Jordan over the period 2009-2019.



Sources: IMF, WB, CBJ.

<sup>292</sup> IMF Country Report July 2017.

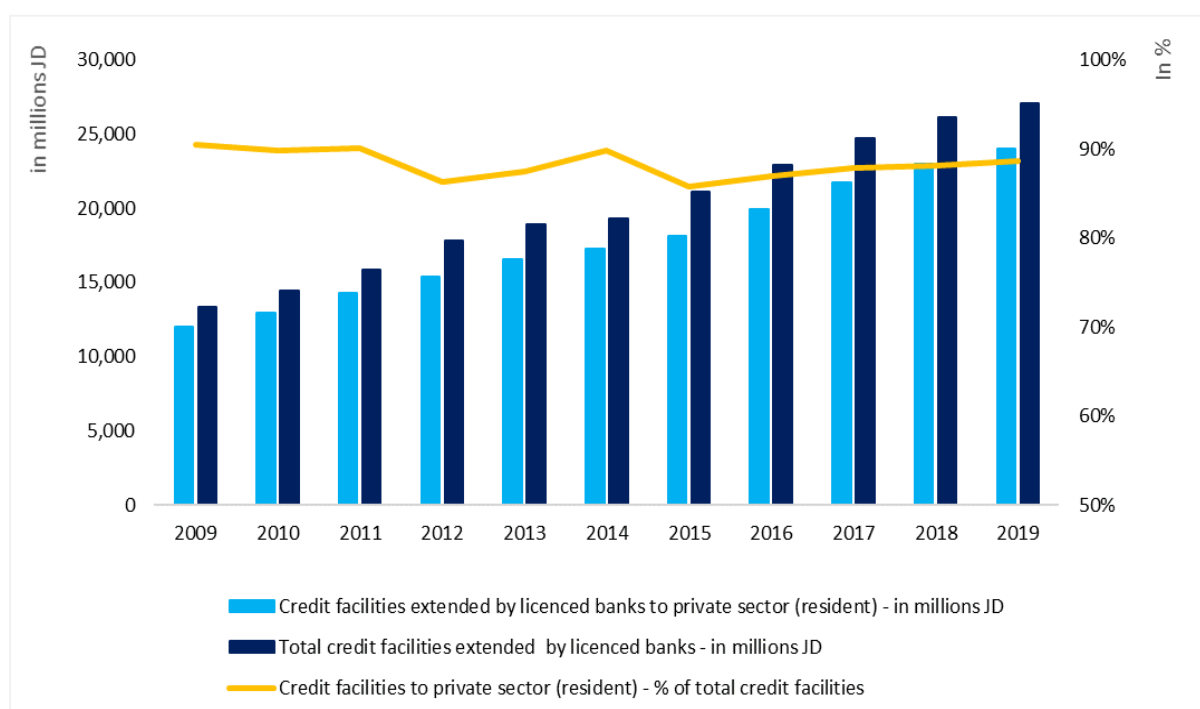
<sup>293</sup> WB data ('bank nonperforming loans to total gross loans (%)').

<sup>294</sup> CBJ data. Available at: <http://statisticaldb.cbj.gov.jo/Browser/index>

<sup>295</sup> IMF Country Report May 2019.

<sup>296</sup> IMF Country Report April 2020.

Figure 37. Evolution of credit facilities extended to the private sector, 2009-2019



Source: CBJ.

### 6.3.7.1 Step 2: Assessing the role and contribution of MFA to observed outcomes

This sub-section explores the extent of the impact of the MFA II operation on macroeconomic outcomes observed in Jordan over the period 2017-2019 (i.e. during the implementation of the operation). This assessment is based on a qualitative approach and, at this stage, draws on evidence and insights gathered from:

- **Literature review**, chiefly covering IMF reports, DG ECFIN documents relating to the operation (e.g. mission reports), and analytical reports produced by other donors and international organisations;
- **Initial discussions** with the Steering Group, notably during the kick-off and inception meetings;
- **Interviews** with key stakeholders;
- The assessment of macroeconomic trends over time and other key **facts and data**;
- The **brainstorming session** with local experts on 27 April 2021;
- Results of the **expert survey**.

### 6.3.7.2 Presentation of the counterfactual alternatives

For the possible counterfactual alternatives (i.e. what might have happened in the absence of MFA financing), the following three scenarios were considered:

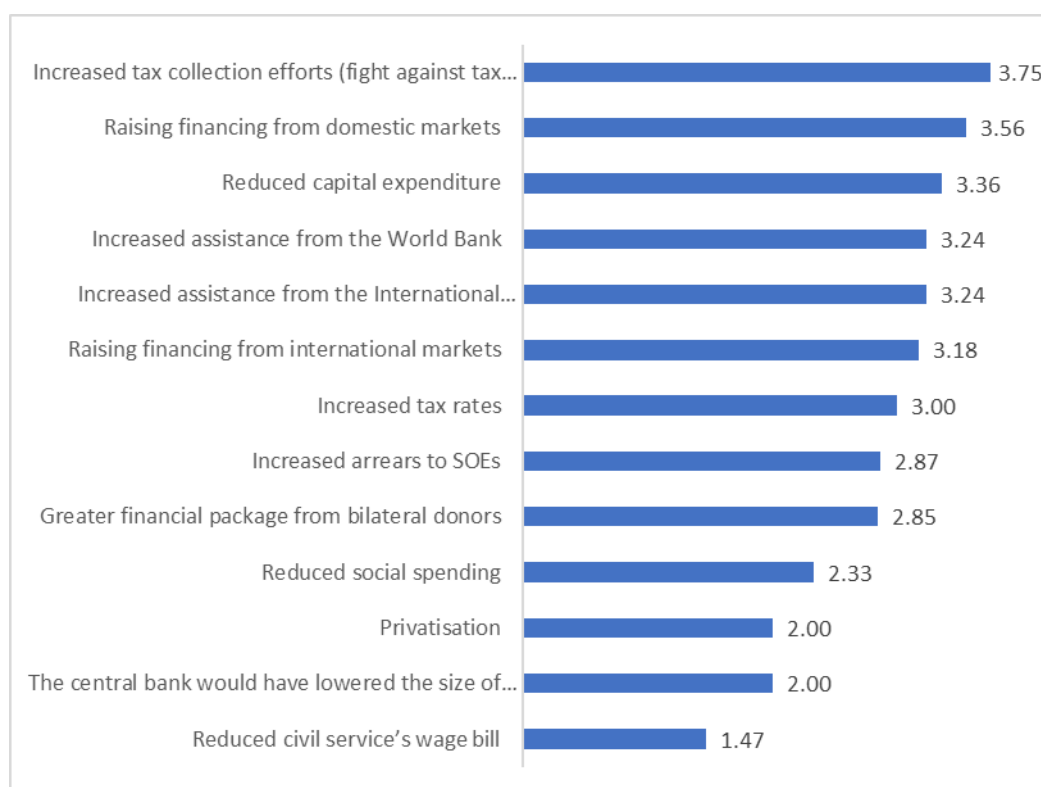
- **Scenario 1**: No disbursement of the first MFA II tranche of EUR 100 million in October 2017, and plausible alternatives.
- **Scenario 2**: No disbursement of the second MFA II tranche of EUR 100 million in June 2019, and plausible alternatives.
- **Scenario 3**: No MFA II and no IMF EFF.

Under each scenario, plausible (counterfactual) options were considered and tested with local experts. As the options are generally the same for Scenario 1 and Scenario 2<sup>297</sup>, a joint discussion is provided, followed by a separate discussion on options under Scenario 3.

**Scenario 1 ('no MFA in 2017') and Scenario 2 ('no MFA in 2019')**

Figure 39 and Figure 40 rank and score options based on how plausible local experts considered them to be.

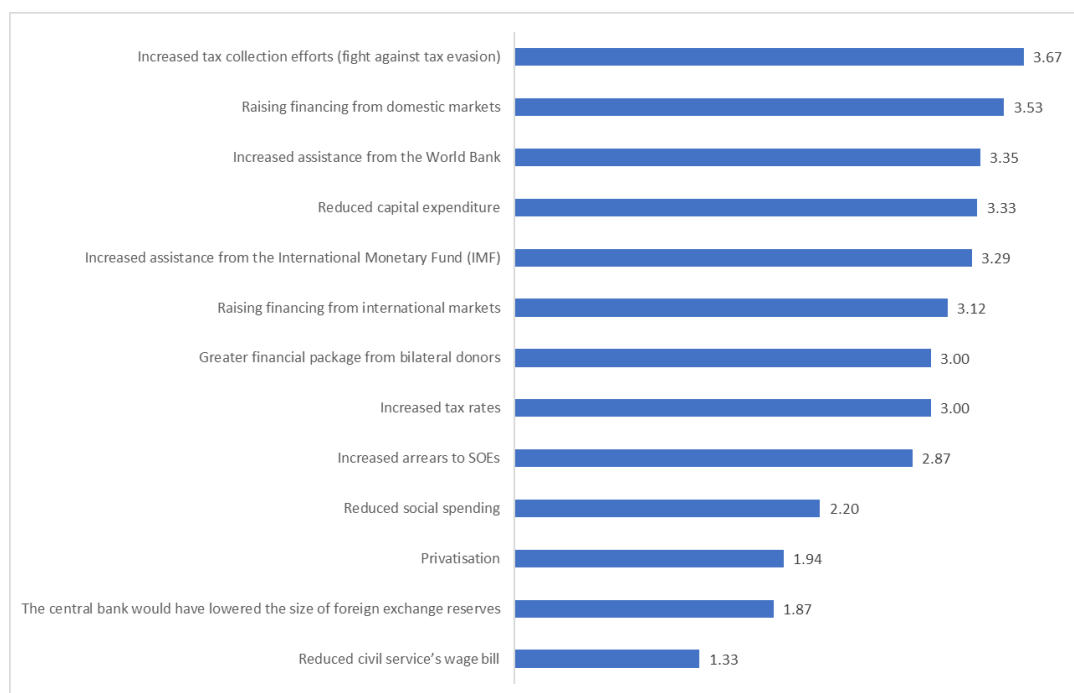
*Figure 38. Alternatives Jordan could have taken in the absence of the first instalment of MFA II in 2017, average score of plausible alternatives with 0= "not at all plausible" to 5 = "very much plausible"*



Base: n=19.

<sup>297</sup> Respondents largely agreed that actions undertaken in the absence of the MFA disbursements would have been the same in 2017 and 2019.

Figure 39. Alternatives Jordan could have taken in the absence of the second instalment of MFA II in 2019, average score of plausible alternatives with 0= "not at all plausible" to 5 = "very much plausible"



Base: n=19.

#### Option 1: Domestic and international financial markets

The option of resorting to domestic financial markets in 2017 and 2019 was judged plausible had the MFA II not been deployed in those years<sup>298</sup>. During that period, domestic borrowing was already on an upward trend. In 2017, government borrowing amounted to some JOD 1.9 billion, while in 2019, debt issuance increased to JOD 4.3 billion (+126.0%)<sup>299</sup>.

Jordan's financial system remained strong and stable, well-capitalised, and profitable in these years, (likely) furthering its appeal had the government had to consider alternative sources of finance. However, unlike MFA II, domestic finance would not have been available on concessional terms, which could have significantly contributed to mounting fiscal pressures.

The possibility of borrowing on international financial markets was also considered plausible, although far less so than the option of borrowing on domestic markets<sup>300</sup>. Although it was recognised that Jordan benefitted from some degree of ease of access to international financial markets during the 2017-2019 period, it would have likely faced a sovereign credit rating downgrade in the absence of the MFA<sup>301</sup>. Jordan's perceived default risk would therefore have increased, making it more difficult to borrow and/or resulting in more costly borrowing.

It could reasonably be expected that the Jordanian government would have considered (further) borrowing, notably on domestic financial markets, in the absence of the MFA disbursements in both 2017 and 2019.

<sup>298</sup> Local experts and most respondents viewed this option as plausible.

<sup>299</sup> Securities Depository Centre.

<sup>300</sup> Most respondents attributed a low score to the plausibility of seeking international finance in each year, signalling a low likelihood that the Jordanian government would have borrowed from international markets

<sup>301</sup> Most respondents agreed that Jordan would have suffered a credit rating downgrade in the absence of the MFA.



### Option 2: Foreign exchange reserves

Tapping into Jordan's foreign exchange reserves was not considered a plausible option in either 2017 or 2019, according to survey respondents, and confirmed by the Commission's ex-ante evaluation<sup>302</sup>. Despite the build-up of foreign reserves in the years leading up to the deployment of MFA II, they had to be preserved, owing to Jordan's increasingly vulnerable external position on foot of a sharp rebound in oil prices, persistent regional political instability, and Jordan's over-reliance on foreign grants. Local experts explained that Jordan's pegged exchange rate regime allowed the Jordanian dinar to become overvalued, reducing export competitiveness and fuelling additional pressures on foreign reserves. In fact, the moderate build-up of reserves observed in earlier years was less than the amount necessary to maintain the import-cover ratio over the longer term owing to the projected growth in imports. This ratio was projected to decline slightly (from 234 days (or 7.8 months) worth of imports in 2015 to 225 days (or 7.5 months) worth of imports in 2017). While Jordan's monetary policy closely followed the movements in US interest rates, it did not prevent a decline of almost USD 1 billion in gross international reserves in 2018. Part of the shortfall was covered in early 2019 (some from USD deposits by Saudi Arabia, Kuwait and UAE). However, the process of replenishment of reserves proved slower than initially envisaged by the IMF. As a result, as of 2019, foreign exchange reserves remained well below the (IMF's) reserve adequacy metric. Further reserve build-up was needed to reduce external liquidity risks, particularly in light of looming repayment obligations of USD 3.1 billion of external debt (principal and interest) falling due in 2020-2021<sup>303</sup>.

Overall, drawing on reserves in 2017 and 2019 would not have been plausible.

### Option 3: Multilateral/bilateral loans

Increased assistance from international financial institutions, such as the WB and the IMF, and increased financial aid from bilateral donors, such as the GCC countries, were excluded as plausible options for Jordan in the absence of the MFA disbursements in 2017 and 2019<sup>304</sup>.

Local experts explained that it had been difficult for Jordan and the IMF to find common ground on financial reform, with implementation of that reform proving equally challenging. Further rounds of assistance from the IMF would likely have resulted in unwanted additional reforms in the financial sector.

The general view on financing from bilateral donors was that Jordan had been over-reliant on such donors for years. Foreign aid from bilateral donors, notably the GCC countries, was also subject to severe fluctuations owing to changing oil prices. As foreign aid is dependent on growth in oil-producing countries (in turn dependent on oil exports/revenue), support from bilateral donors became increasingly unpredictable. In the absence of the MFA disbursements in either 2017 or 2019, there is no certainty that bilateral donors would have been able to offer Jordan assistance of a similar magnitude.

### Option 4: Fiscal adjustment

#### **Social/public spending**

Views from local experts were generally in line with those of the survey respondents. The shared view was that fiscal adjustment through social/public spending cuts would not have been a plausible option in the absence of the MFA disbursement in 2017, owing to a

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<sup>302</sup> European Commission (2016). 'Ex-ante evaluation statement Accompanying the document Proposal for a Decision of the European Parliament and of the Council providing further Macro-Financial Assistance to the Hashemite Kingdom of Jordan.

<sup>303</sup> European Commission (2019). 'Ex-ante evaluation statement Accompanying the document Proposal for a Decision of the European Parliament and of the Council providing further Macro-Financial Assistance to the Hashemite Kingdom of Jordan. Available at: [file:///C:/Users/30205/Downloads/1\\_EN\\_autre\\_document\\_travail\\_service\\_part1\\_v3.pdf.en.pdf](file:///C:/Users/30205/Downloads/1_EN_autre_document_travail_service_part1_v3.pdf.en.pdf)

<sup>304</sup> Based on views from local experts and the majority of survey respondents.



tight fiscal strategy already in place in Jordan. In the face of declining economic activity, growing social unrest and an acute refugee crisis, Jordan had limited budgetary room for manoeuvre. As such, the Jordanian government had already embarked on an extensive fiscal consolidation programme, significantly limiting further budgetary cuts in 2017 and subsequent years.

### **Cost-cutting public sector measures**

No specific conclusions were drawn in respect of the possibility of freezing wages or recruitment in the civil service. It was acknowledged that Jordan was suffering from a 'bloated' public sector, whose wages constituted an important source of fiscal stress. Efforts to downsize the public sector were already underway, such as greater government integration (i.e. the integration of government departments, commissions for more effective use of resources and to generate cost savings) and specific reforms designed to allow early retirement, especially among those who had served for at least 27 years (reduced from 30 years). However, given the extent of social tensions observed between 2017 and 2019 (following several austerity measures), the chances of further downsizing the public sector (e.g. reducing the wage bill) in either 2017 or 2019 appeared slim.

### **Capital spending**

With the hosting of Syrian refugees gaining momentum, the Jordanian government came under increasing pressure to further capital investments, such as infrastructure projects, in order to sustain the growing population. Despite this, capital spending slowed down after 2016. It remained stable in 2017 (at 3.6% of GDP) but fell by almost 15.0% in 2019 (from JOD 1,060.2 million in 2017 to JOD 915.5 million in 2019)<sup>305</sup>. Although survey respondents still saw this as a plausible option, the Study team believed it unclear whether capital expenditures could have been further contained and/or reduced had the MFA not been deployed.

### **Taxation**

In 2018, income tax reforms were implemented with some degree of success. More specifically, the reforms sought to control high tax evasion and raise income taxes. Initial income tax thresholds were set too high, allowing up to 92% of income earners to avoid paying income tax in 2017. A lower tax threshold was applied from 2018, with fewer income earners exempted and boosting (income) tax revenue collections. Further increasing income tax rates was judged a less plausible option (in either 2017 or 2019), considering the extent of opposition to the passage of the existing income tax law.

By contrast, survey respondents felt that there would have been scope to enhance tax evasion efforts. According to Jordan's Vision 2025, an estimated JOD 370 million worth of income taxes remained unpaid in 2012, while tax evasion was estimated at about JOD 750 million. This trend persisted in the following years, implying that implementing and enforcing tougher measures to fight tax evasion could have raised additional revenue for the Jordanian government in the absence of MFA II. In the wake of the COVID-19 pandemic, for example, the Jordanian authorities raided thousands of companies in the country to combat tax evasion, freezing/seizing assets of businessmen and public officials suspected of tax evasion. They also began to investigate offshore/tax havens and track the holdings of wealthy Jordanians. In 2020, Jordan's tax and anti-corruption authorities were expected to raise over JOD 700 million as a result of the new measures<sup>306</sup>. The additional revenue was expected to help to cover the budget deficit that doubled (from the deficit recorded in the previous year) as a result of the pandemic.

### **Final remarks**

Overall, increasing tax collection efforts was considered plausible.

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<sup>305</sup> Ministry of Finance Jordan. Available at: [arabic\\_january\\_final\\_compressed.pdf \(mof.gov.jo\)](https://mof.gov.jo/arabic_january_final_compressed.pdf)

<sup>306</sup> Organized Crime and Corruption Reporting Project (OCCRP) (2020). 'Cash-strapped Jordan targets premium tax evaders.' Available at: <https://www.occrp.org/en/blog/12775-cash-strapped-jordan-targets-premium-tax-evaders>

Option 5: Privatisation

Privatisation was not considered a plausible option in either 2017 or 2019. In recent years, rather than furthering its privatisation programme, the Jordanian government increasingly focused on the possibility of buying back assets due to relatively poor outcomes of various pre-2016 privatisation deals. A Privatisation Evaluation Committee (PEC) was established in March 2013 and was tasked with assessing the privatisation efforts of successive Jordanian governments since 1989<sup>307</sup>. Findings from the PEC evaluation of Jordan's privatisation programme were mixed. In some cases, the rationale for the privatisation and the ensuing process were held to be proper, while, in others, the PEC found legal violations during the execution of privatisation deals. The report also indicated that the government would have better served the interests of the nation by maintaining strategic interests in some sectors, notably those considered central to the economy, such as mining and cement.

Conclusions on Scenario 1 and Scenario 2

Based on the analysis, the most plausible options were:

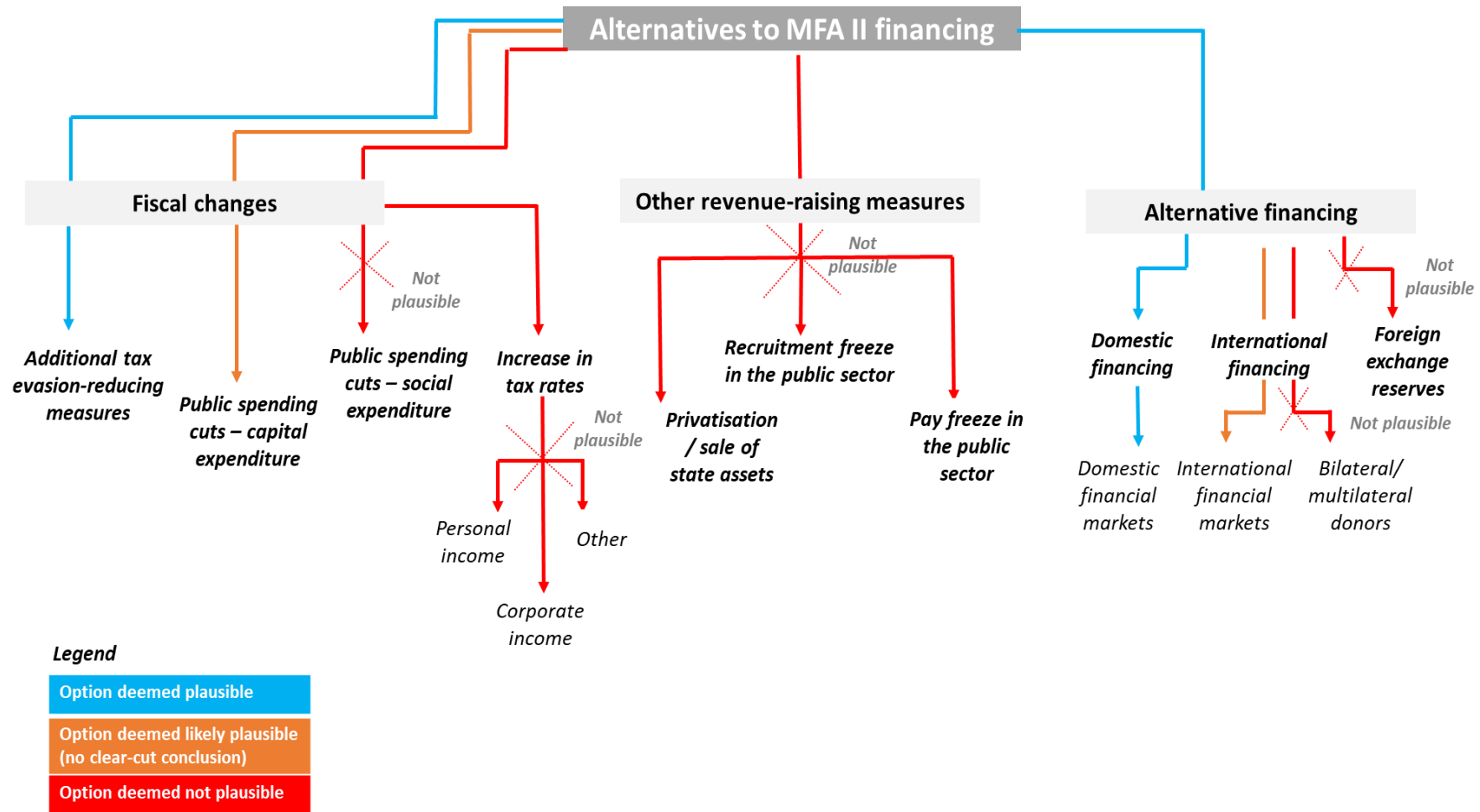
Issuance of new debt in domestic markets;

Tighter enforcement of profit and income tax laws to increase tax receipts (realised tax revenues).

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<sup>307</sup> Oxford Business Group (n.d.). 'Evaluating the government's privatisation programme.' Available at: <https://oxfordbusinessgroup.com/analysis/evaluating-government%E2%80%99s-privatisation-programme>

Figure 40. Summary of alternative scenarios to MFA II financing (with continued IMF support)



### **Scenario 3 ('no MFA II and no IMF EFF')**

According to local experts and survey respondents, Jordan would have experienced a significant financing gap had the combined assistance not been deployed in these years. In the absence of both the MFA II and IMF EFF, the Jordanian government could have resorted to further tightening of its fiscal stance. More specifically, it could have adopted revenue-raising fiscal measures, akin to those taken after the delays experienced in the MFA and IMF EFF disbursements. A first disbursement of USD 72.3 million was made available to Jordan following the approval of the IMF EFF programme. The first programme review, initially scheduled for 19 December 2016, was only approved by the IMF Executive Board on 21 June 2017. To compensate for revenue foregone resulting from the postponement of the disbursements, the government raised fees and excise on products such as cigarettes, fuel and telephone services in January 2017. It is uncertain whether such measures on their own would have sufficed. Survey respondents generally indicated that without the MFA and IMF EFF, sovereign default would have been likely in 2017 and very likely in 2019. Local experts also commented in the counterfactual brainstorming session that insights might be drawn from the recent experience of Lebanon, a country which faces a number of comparable challenges to Jordan (e.g. infrastructure pressures stemming from the number of Syrian refugees, a fixed-exchange rate regime, high/increasing public debt). Lebanon's current economic situation, which did not benefit from international assistance, can help provide insights into the hypothetical scenario in which Jordan had been denied assistance from MFA and IMF programmes. Likely economic outcomes would have likely been: hyperinflation, unsustainable debt, a significant fall in real incomes and living standards, and a considerable rise in the poverty rate.

#### **6.3.8 Part 2: Assessment of effectiveness of MFA conditionality**

The boxes below summarise the findings at reform area level (see Annex 8 for a detailed evaluation of each condition using the Study's analytical framework).

Generally, progress was accomplished in an exceedingly challenging environment. More specifically, conditions that held up the payment of the second tranche - tax reforms, the Audit Bureau Law and public procurement - were implemented with a moderate to substantial delay, but were all deemed to have been fulfilled.

Progress was evident in areas such as public procurement and training for Syrian refugees. Key steps were also taken to improve the Audit Bureau field, but the adopted law did not go as far as expected in strengthening the independence, position, and status of the Audit Bureau. Parliamentary discussions and work are currently ongoing in respect of further reform and revision of the law. Equally, there was substantial progress in the area of social safety nets. Despite delays in implementation, progress was made in the creation of the NUR, while the HEIS was launched in August 2017. In the tax reform area, more substantial improvements will require broader reforms that go beyond the scope of MFA II.

#### **Box 26. Tax**

The Jordanian Parliament amended the 2014 Income Tax Law in 2018. The amendments were published in the official Gazette in December 2018 and took effect in January 2019 (New Income Tax Law).

Some progress (albeit uneven and slow) was achieved in both PIT and CIT. The new law lowered the PIT tax exemption threshold from JOD 12,000 to JOD 10,000 in 2019. Further progress was made since MFAI II, and the PIT tax exemption threshold was further reduced to JOD 9,000 per year in 2020. Additionally, the law established a

considerably more progressive tax scale, with six tax grids compared to three in the previous Income Tax Law. The new law establishes a uniform standard statutory CIT rate of 20% for industrial and commercial sectors, and imposes a surtax on business earnings. Having said that, broadening the tax base, particularly in the case of PIT, was not as ambitious as it could have been, owing to the high political cost. The increase in sales tax also failed to yield the anticipated revenues.

Tax reform, including a range of policy changes, was found to have mixed impacts on the social conditions of Jordanian citizens. The reforms brought a modest increase to government resources through a variety of taxes, including direct and indirect taxes. However, the reforms were assumed to have negatively affected demand and consumption by squeezing the purchasing power of middle-class households in Jordan.

#### Box 27. Social safety net

Despite experiencing delays in implementation due to lengthy procurement processing and the government's request to include an offline function, in July 2018 the contract for the development of the System Integrator Platform was signed and the WB extended the project's completion date to December 2019. As of May 2019, progress was made in the creation of the NUR and the testing phase was successful. Its preliminary set up consisted of seven government institutions, including: National Aid Fund; Social Security Corporation; Income and Sales Tax Department; Ministry of Information and Communications Technology; Ministry of Finance – Pensions Department; Civil Status Department; and Drivers and Vehicles Licensing Department.

Interviews with national officials suggest that the NUR improved the targeting mechanism of the NAF. In its current state, the Ministry of Social Development has completed all stages of the expansion, with the NUR used to identify and collect data/information on poor families, as well as those applying for support through the online platform. This was also useful in the implementation of emergency social support in 2020.

Likewise, the Jordanian government launched the HEIS on 1 August 2017. In collaboration with WB technical support, a new methodology was used to redesign all aspects of the survey so as to enable the estimation of poverty rates not only at national level but at district and sub-district levels, and to expand representation. The Department of Statistics published the results of the 2017-2018 HEIS, although with no official estimation of the national poverty line. During a press conference in April 2019, Jordan's Prime Minister indicated an estimation of around 15.7% lived in extreme poverty in Jordan. Interviews with representatives of other IFI's suggested a need for further government transparency and the need to better assess the poverty line in Jordan.

New data provided through the HEIS complemented Action #7 in better targeting social safety nets and could be used to mitigate the welfare impacts of energy subsidy reform on the poor.

#### Box 28. Water sector

As part of the government's obligations under the IMF EFF, an action plan was prepared to aid in the reduction of cost and increase revenues. This was aimed at achieving operational and maintenance cost recovery by 2020. In February 2017, the Council of Ministers adopted the Action Plan to Reduce Water Sector Losses (as reflected in the letter of His Excellency the Prime Minister ref. 56/10/6/5790). The Plan included measures to reduce non-revenue water, introduce energy efficiency and renewable

energy projects in the water sector, effective measures to eliminate illegal or unauthorised usage of water, increase water and wastewater tariffs, and automation of water supply systems.

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). It is anticipated that after completion, this project will create energy savings of around 50 GW hours per year (reducing energy consumption by 7%). This project is also expected to reduce the electricity bill by an estimated JOD 5 million (or EUR 6 million) annually.

During the interviews, national officials highlighted that the increases in energy sector tariffs were deepening the deficit in the sector. While feedback from interviews with representatives of other IFIs suggested a lack of ambition within this reform area, interviewees indicated the need to focus efforts on clean, renewable energy as a lower-cost, alternative source of energy. National officials also noted progress on the inclusion of a financial sustainability roadmap to ensure debt recovery.

#### Box 29. PFM

There was progress in a number of PFM-related aspects over the lifetime of MFA II, in particular the areas targeted by the MFA conditions.

##### **Public debt management**

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. 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 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 are 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. However, liquidity in the secondary market for government securities remains limited<sup>308</sup>.

##### **Audit**

Audit reforms have delivered some tangible benefits, most notably:

- 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.
- The withdrawal of the Audit Bureau from pre-audit activities has allowed the Audit Bureau to focus on more important issues and improve the timeliness and

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<sup>308</sup> Secondary market liquidity is an essential feature of a well-functioning and resilient government bond market. Investors and traders place a high value on being able to trade sizeable volumes of bonds without the risk that these trades will impact on bond prices. Liquidity in government bond markets also has a direct impact on funding possibilities and financing costs. Moreover, liquid government bond markets support the development of financial markets more generally, because of the important benchmark or reference role played by marketable government debt.

coverage of its audits. In the past, there were delays of five to six years in auditing some accounts ; nowadays, the delays have been reduced to one year. Moreover, since 2019, the Audit Bureau started undertaking risk-based comprehensive audits.

### **Public procurement**

The establishment of the independent appeals system has increased the transparency in Jordans public procurement system and aligned it with international standards. 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. 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.

However, further work needs to be done in raising awareness at the local government level.

### **Box 30. Employment and trade**

*To be included in next version of the report*

The MFA compliance statements on conditions #9 and #10 provide evidence of effect - although a modest one. In overall, 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. With respect to the issuance of total work permits outside of special economic zones: a total of 45,649 and 46,717 work permits were issued to Syrian refugees in 2017 and 2018 respectively, indicating tangible progress towards the economic inclusion of Syrian refugees. In addition, MFA compliance statements suggest that vocational trainings were expanded to 800 Syrians in 2017 and to 900 Syrians in 2018. Additionally, as a result of MFA II condition, the training offerings were updated, revised and expanded according to officials at the Ministry of Vocational Training.

However, while officials at the Ministry of Employment rejected our requests for interview, it is expected that shortfalls of special economic zones limited the scale of social impacts. Furthermore, despite a few success stories, ILO reported challenging labour market conditions for Syrians and cited these as limiting the extent of impact on employment. Interviews with other donors revealed limited impacts stemming from these conditions as well as underlying issues which may have prevented greater impacts. While capacity constraints undermined the optimal use of the scheme in designated economic zones, it was also mooted that formal employment are regarded by the refugees as a threat to their refugee status and the monthly benefits they get from the UN and the international community. Thus, resolving horizontal issues related to formal employment for Syrian refugees was also critical to the scheme's success. Finally, it was not possible to establish the link between vocational training and employment quantitatively with the available data, nor was it possible to assess the material impact of the skills survey of the Syrian refugees living in Jordan.

## **6.4 Social Impact Analysis**

The overarching aim of the SIA was to use evidence from social indicators and primary data to assess the impact of MFA II on the social situation. The analysis considered both *direct impacts* of policies specified in the MFA conditionalities and *indirect impacts*

of wider macroeconomic stability across a range of social indicators. The full findings are available in Annex 12.

Key findings of the social impact analysis in Jordan include:

- **Tentative improvements to monitoring/administration systems.** Evidence from mission statements and compliance reports suggests tentative improvements in bolstering systems used to monitor and administer social protection. Such improvements on the part of the authorities include design, procurement and configuration of the NUR. No evidence was found of social impacts during MFA II, but longer-term improvements in targeting may stem from greater administrative/monitoring capacity.
- **Mixed findings for tax reform.** Tax reform (including a range of policy changes) had mixed impacts on the progressiveness of the tax system and the social conditions of Jordanian citizens. Income tax reform was found to increase average taxes on household earnings while preserving progressiveness. With the exception of some income groups (e.g. individuals earning approximately JOD 12,000), the progressiveness of the income tax system is expected to improve as a result of the reform. Despite some safeguards, sales tax reform disproportionately affected consumer items (e.g. foodstuffs), which typically make up a larger share of poorer households' budgets. As a result, increases in sales tax (or removal of special tax treatment or subsidies) were expected to make the tax system more regressive (all other things being equal).
- **Improvements in Syrian refugees' access to work.** Evidence reviewed in the SIA suggests that access to employment and training for Syrian refugees was helped by policies relating to work permits, SEZs and access to vocational training. Given the relatively low number of refugees benefiting from SEZs and vocational training, such improved access to work permits is unlikely to have been particularly impactful on the social situation in Jordan to date.
- **Limited impacts associated with no first tranche MFA (Alternative 1).** The likely social impacts of Alternative 1 were found to be limited, as the assumed alternative sources of finance did not involve government cuts or pension adjustments.
- **Tentative negative impacts stemming from the absence of second-tranche conditionalities (Alternative 2).** Given that second tranche MFA support required adherence to conditionalities, it is possible that Alternative 2 would have implied slower and less thorough reform of social safety nets, tax policy and access to employment/training for refugees. This could have impacted the social situation in Jordan negatively, for example, through weaker social security systems and access to employment/training (with some positive social impacts stemming from slower reform of sales tax). However, results from the expert survey were inconclusive in respect of the contribution of the conditionalities to these reforms. It is very likely that, even without the MFA conditionalities, some components of these reforms would have occurred. The absence of budgetary support (provided by MFA II) would likely have been offset by other sources of financing, with limited social impacts.
- **Severe deterioration of socioeconomic conditions in the absence of MFA and IMF support (Alternative 3) –** Outcomes stemming from the absence of any support from IMF and MFA operations would have been highly uncertain, but are anticipated to have severe implications for the social situation in Jordan. Such implications could include economic recession, increased rates of unemployment, high levels of inflation and cuts to public services and wages.

## **6.5 Debt Sustainability Analysis**

The objective of the DSA was to evaluate the contribution of the EU MFA II operation (2017-2019) towards the sustainability of Jordan's public debt. DSA relies on



modelling the key debt burden indicators and macroeconomic variables that affect the path of a country's debt and its capacity to manage its debt sustainably. To assess the contribution of the MFA support to Jordan's debt sustainability, the actual outcomes (baseline scenario) were compared to hypothetical outcomes in three counterfactual scenarios:

- What would have happened without the MFA II first tranche but with the IMF assistance in place (Alternative 1: no MFA first tranche scenario);
- 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);
- What would have happened in the absence of MFA II and without IMF assistance (Alternative 3: no MFA, no IMF scenario).

### ***What happened under the baseline scenario***

The analysis of trends in key debt sustainability indicators in the run-up to the MFA II operation showed that the large public sector deficits over 2011-2015 resulted in a rapidly increasing debt-to-GDP ratio and thus deteriorating debt sustainability for an emerging market country such as Jordan. As observed in the years 2016-2019 in the baseline scenario (the actual outcome), even with efforts to curb public sector deficits and support from the IMF and MFA II, the debt-to-GDP ratio could not be brought down to a more sustainable level. By the end of 2019, the ratio had increased further, with additional support requested from the IMF in January 2020. Even with the support of the IMF and the EU, Jordan could not achieve a sustainable debt trajectory even before the outbreak of the COVID-19 pandemic. The IMF projections from 2020 (not accounting for the effect of the COVID-19 pandemic) show that Jordan's debt could only have entered a sustainable path in scenarios that assume an increase in the GDP growth rate and persistent primary surplus. For these to materialise, further fiscal and structural reforms would have needed to be undertaken, as proposed in the government's 2020 plan.

### ***Alternative 1 – no MFA first tranche scenario***

The analysis of the most likely outcome in the absence of the first tranche of MFA in 2017 suggests that Jordan would have met most of the resulting financing gap by issuing new debt in domestic markets (EUR 98.7 million), with the remainder covered by accelerated efforts to curb tax evasion, leading to a modest increase in government revenue (EUR 1.3 million). Under these assumptions, key debt sustainability indicators would have remained virtually unchanged, given the substitution of one form of borrowing for another. However, the cost of borrowing in the Alternative 1 scenario would have been higher, due to the higher rate of interest on domestic borrowing, as well as changed credit risk perceptions among investors, leading to an increased interest rate on other issuances during the period. The increase in annual payments would have had a negligible impact on the key debt sustainability indicators, with the gross-financing-needs-to-GDP ratio and the gross-public-debt-to-GDP ratio not departing from the baseline levels by more than 0.1 percentage points by 2019. Therefore, the assessment of Jordan's debt sustainability does not depart from the baseline assessment. Nevertheless, over the entire period of borrowing (13.4 years), the first tranche of MFA is estimated to have provided a substantial saving on the cost of borrowing, which would have been higher by EUR 147 million in the absence of that first MFA tranche.

### ***Alternative 2 – no MFA second tranche scenario***

The analysis of the most likely outcome in the absence of the second tranche of MFA in 2019 suggests that the options available to Jordan would have been similar to those in 2017 (Alternative 1). This scenario similarly assumes that the financing gap in the absence of the second MFA tranche would have been covered primarily by issuing new debt in domestic markets (EUR 98.6 million), and efforts to curb tax evasion increasing government revenue (EUR 1.4 million). As in the Alternative 1 scenario, the key debt sustainability indicators would have remained virtually unchanged from the baseline scenario and would have little bearing on Jordan's risk of default during the period analysed. The annual increase in the interest payments in the Alternative 2 scenario is estimated at EUR 19.6 million in 2019 and EUR 20.2 million in 2020. These increases would have had a negligible impact on the key debt sustainability indicators, with the gross-financing-needs-to-GDP ratio and the gross-public-debt-to-GDP ratio not departing from the baseline levels by more than 0.1 percentage points by 2020. Again, the assessment of Jordan's debt sustainability does not depart from the baseline assessment.

Nevertheless, over the entire term of lending (16 years), the second MFA tranche offered a substantial saving on the cost of borrowing, both as a direct saving and as a signal boosting investor confidence and leading to lower risk premia on Jordan's newly issued debt. It is estimated that the cumulative cost of borrowing in the absence of the second MFA tranche would have been higher by EUR 194 million.

### **Alternative 3 – no IMF, no MFA scenario**

It is assessed that a lack of support from the IMF and the EU would most likely have resulted in Jordan's debt sustainability coming under extreme pressure. The analysis reveals that Jordan would likely have lost access to international financial markets as a result of heightened credit risk perceptions: refusal of the IMF and the EU to offer support would have been perceived as a vote of no confidence in the government's ability to carry out the necessary reforms to its public finances. A loss of access to international financial markets would have opened a financing gap much larger than the amounts of lending provided by the IMF and the MFA. It would not have been possible to cover a financing gap of this size (estimated at over EUR 5.5 billion over the 2017-2019 period) without incurring severe consequences for the gross financing needs (as a share of the GDP). Jordan's public finances were already weakened as a result of mounting pressure on public services due to the influx of refugees from Syria, while the political capital to carry out the necessary reforms of public finances was inadequate.

It is not possible to precisely determine the profile of the deterioration of Jordan's economic outlook and debt sustainability under this scenario. 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. The effects of such a hypothetical crisis are difficult to quantify, though insights can be drawn from the experience of Lebanon in 2020: a sharp contraction in economic output, hyperinflation, and a currency crisis.

## **6.6 Efficiency**

**Question:** *Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country?*

The first (2017) tranche occurred in a particularly challenging economic and social context, against a background of rising oil prices, adjustments in electricity tariffs, low growth, rising unemployment and reduced investment.

The second tranche of EUR 100 million was disbursed in June 2019 and not 2017-2018 as initially planned. Interviews with stakeholders from the European Commission and the Jordanian government suggested that the disbursement of the MFA was appropriate in the context of the prevailing economic and financial conditions in Jordan, and disbursement decisions and deadlines were generally supported by all stakeholders. At that time, despite some glimmers of hope, the country was still operating in a challenging macroeconomic context arising from the low growth environment, weak investment and shortfalls in expected tax revenues.

The interviews indicated no significant issues arising from the delayed MFA disbursement, owing to the relatively small size of the MFA tranche. A combination of fiscal measures to increase revenue and heighten borrowing on domestic financial markets were crucial in closing the gap.

*Question: To what extent did the MFA operation design enable the intervention to be carried out efficiently? In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives?*

Beyond the disbursement schedule, several specific issues were also considered.

### **Issue 1: Ownership of the programme by the national authorities**

Ownership is often difficult to assess, especially ex-ante and in donor-dependent countries such as Jordan. The evaluation of MFA I to Jordan revealed no major ownership issues, despite a rather lengthy implementation process (attributed to the authorities' unfamiliarity with the MFA instrument). Most interviewees noted a further improvement in reform ownership since the MFA II operation, although evidence is mixed and does not allow for robust conclusions.

Interviewees reported a lack of transparency and mismatches between discourse and action. Some acknowledged a higher degree of reform ownership embedded in an overall politico-institutional approach and a willingness by the Monarch to undertake structural changes and ensure that ownership would be maintained. Others were more critical, noting a lack of accountability that saw authorities subscribe to the political programmes publicly, but then fail to implement them effectively, as agreed in the MoU. In addition, the unpredictable legislative and oversight processes of the Jordanian Parliament, together with the high turnover of government officials, may have been partly responsible for variation in the levels of reform ownership in some instances. By and large, while Jordan's government effectiveness ranking was consistently above average<sup>309</sup>, interviewees underscored the importance of setting up a system of accountability to resolve some of these issues.

### **Issue 2: Capacity to effectively implement the programme**

The Jordanian authorities were reportedly very slow in their responses, due to a high level of bureaucracy and associated indecisiveness in the public sector. This was particularly true for some conditions (e.g. those related to the Audit Bureau), where many exchanges of correspondence and redrafting of conditions delayed the process. Interviewees mentioned a lack of adequate resources, constant turnover of staff, excessive red tape, burdensome administrative practices, and hierarchical complexity,

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<sup>309</sup> AL-Refai, Mohammed Suleiman Dr. (2019) "Good Governance in Jordan: Reality and Future Prospects," Arab Journal of Administration *المجلة العربية للإدارة*: Vol. 39 : No. 3 , Article 3. Available at: <https://digitalcommons.aaru.edu.jo/aja/vol39/iss3/3>

as key constraints. They stressed the importance of donors finding an appropriate balance between the ambition required for conditionality and the capacity of the country (and its organisations) to achieve that ambition.

The consensus among interviewees was that the reforms promoted by the EU via MFA II were, for the most part, relevant and achievable. Some, such as the tax reforms (which were equally promoted through the IMF EFF), were assessed as overly ambitious and beyond the government's capacities at the time.

Institutional constraints were also underlined as a potential reason for the country's overdependence on external sources of technical assistance. Where technical capacities were underlined as a major issue, the provision of technical assistance from the European Commission or the WB, together with better resources and staff training, were seen as instrumental in successfully implementing reforms. For example, technical assistance from the WB was seen as central to social safety net reforms, most notably the establishment of the NUR.

In general, interviewees also reported apparent progress in this area, especially under MFA III, but insisted that much work remains to be done in addressing institutional capacity constraints.

### **Issue 3: Liaison and monitoring processes**

Meetings between the Jordanian Ministry of Planning and International Cooperation (MoPIC) and the EU Delegation were coordinated effectively, with no major constraints reported.

The Commission and the EEAS cooperated closely, particularly ECFIN and the EU Delegation in Amman, with significant cooperation also between the Commission, EU Delegation and the IMF. The monitoring process was simplified by the level of coordination between the IMF and the European Commission in terms of negotiations and sharing information, as well as the EU Delegation, which hosted the meetings and supported logistics, missions and information sharing. Additionally, the EU delegation maintained engagement and discussions with the authorities on the ground, by regularly monitoring the implementation of reforms as well as attempting to collect evidence on effective reforms implementation.

Nevertheless, some interviewees suggested a need for better policy dialogue with actors in Jordan (e.g., increased number of ECFIN missions to Jordan), especially at the design and implementation stages, so as to ensure effective coordination and monitoring. Finally, the structural challenges faced by the Jordanian administration meant that indecisiveness and unresponsiveness were a feature of MFA-related communication.

### **Issue 4: Adjustments to implementation given unforeseen external events**

While one waiver was granted under MFA I in relation to the Audit Bureau Law, no waiver was requested or granted for MFA II. All conditions were assessed as met or broadly met upon payment of the second tranche of the MFA II. As noted earlier, the second disbursement was substantially delayed.

In December 2017, the Commission expressed its concern about the lack of sufficient implementation of four conditions, namely: submission of an amended Audit Bureau Law to the parliament (condition #3); establishment of a new independent appeal system in public procurement (condition #4); submission of a new income tax law to parliament (condition #5); and the further reduction of GST exemptions (condition #6). Following discussions with the authorities, the amended text of the Audit Bureau Law was approved by the Jordanian Cabinet of Ministers by early 2018, and a second wave of reductions in tax exemptions was included in the 2018 budget. The Jordanian

authorities confirmed their intention to establish an independent review mechanism, although in a different format from than that envisaged in the MoU. Some resistance persisted with respect to public procurement and there were attempts to avoid implementation. However, in May 2019, following multiple consultations and dialogues, the authorities drafted new legislation that brought some further improvements to the condition on public procurement itself.

Dialogue between the authorities and the European Commission was seen by interviewees as generally productive and effective throughout the design and implementation processes, with necessary adjustments to implementation as required.

### **Issue 5: Visibility and public ownership of reforms**

A recent poll<sup>310</sup> showed that an overwhelming majority (77%) of Jordanians feel that the EU has a positive influence on the development of their country, with 69% believing that EU financial support to the Kingdom is rather effective. However, while the IMF EFF programme was well known among the general public and informed stakeholders, awareness of the MFA programme was considered non-existent among the general public and limited even among informed stakeholders. In the view of some interviewees, this hampered public ownership of reforms.

Reasons for that lack of awareness were mentioned in interviews: some interviewees emphasised the lower-than-expected publicity on the MFA operation. For MFA II specifically, visibility efforts were limited. No open events or press conferences were held with the Minister of Finance or the Governor of the CNJ and there was no MoU signing ceremony to highlight the MFA and improve visibility.

It was reported that, with the MFA being managed from headquarters, better coordination between the local communications team in Jordan and the headquarters communications team would facilitate the production of useful, contextually relevant material for local distribution. This would capitalise on the EU action locally, improve visibility, and build positive perceptions.

Another issue raised was that of limited communication from the government with the public on the importance of reforms. This was particularly true for the Income Tax Law, where the government did not attempt to inform or educate the public on its long-term benefits. The Law also suffered from a lack of transparency, for example, around the opaque taxation of some professions. As the IMF was seen as the primary instigator of this reform, the reputation of the EU did not suffer, although it supported the same reforms and thus public opinion of the EU could have shifted as a result.

According to many interviewees, such sensitive reforms could be successful only with efficient and transparent communication from the government to the general public. The alternative could lead to political mobilisation to oppose reforms and maintain the status quo and vested interests.

## **6.7 EU added value**

Several aspects can be considered when looking at added value: financial and non-financial added value of an intervention at EU level, and push for reform.

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<sup>310</sup> Opinion poll 2020 – Jordan Factsheet | EU Neighbours.

### **6.7.1 Financial added value**

Despite significant delays in MFA disbursement and its relatively small size, the MFA loan helped to alleviate Jordan's financing needs between 2017 and 2019. The MFA operation's magnitude (EUR 200 million) equated to 0.3% of Jordan's GDP in 2017 and 2019. The MFA loan's primary advantage over alternative sources of financing, including the IMF EFF, was its highly concessional terms, which included a relatively low interest rate, long maturity, and a long grace period, all of which resulted in significant fiscal savings for the Jordanian government and increased the instrument's financial added value. The MFA loan provided the government with a significant respite at a time when it was clear that substantial credible fiscal adjustment was needed to secure the confidence of international financial markets/investors and major creditors. Interviewees emphasised the critical signalling role of the MFA loan (together with the IMF EFF) and the related series of reforms imposed by the programme.

The OECD figures (see Annex 1 A1.2) show that Official Development Assistance (ODA) provided by EU institutions ranked only fourth among the top contributors to Jordan from 2017 to 2019, while EU Member States, particularly Germany and France, were already giving significant assistance to Jordan over that same period. Outside of the EU, the US and UAE also provided significant aid to Jordan, with the US leading the way in pledges and disbursements. Nevertheless, despite significant financing needs, there is little evidence that bilateral donors would have been able to expand their financial envelope in the absence of MFA II.

### **6.7.2 Non-financial added value**

#### ***Signalling effect to civil society and the general population***

In light of the impact of the Syrian refugee crisis, it was assumed that the EU would step in to provide various types of support to Jordan, as pledged in 2016 at the London Conference. Participants in the experts survey almost uniformly agreed that MFA II financing sent a strong signal of EU support to Jordan (15 of 19 respondents agreed or strongly agreed with the statement).

However, most interviewees noted that the visibility of the MFA remains limited and does not go beyond limited circles of informed stakeholders. There was also little indication that MFA conditions were used as leverage by CSOs in the public discourse to advance specific reform agendas.

As stated by participants in focus group discussions and interviews, information on EU loans (or any other loans) is often perceived with mixed feelings in Jordan, partly because the public is aware of the country's massive debt and thus resists the idea of additional loans as heightening the already unsustainable level of public debt. While these types of assistance are seen as a relief, there is also widespread frustration about the series of fiscal adjustment measures typically imposed, with little information on the outcomes.

Participants in the focus group, together with local experts and interviewees, concurred that politicians, the EU and the media should better communicate and explain the principles of the reforms, their anticipated and actual benefits, as well as benefits of the concessional nature of these types of loans.

#### ***Confidence boosting effects***

Despite limited familiarity with the MFA instrument within the private sector, experts agreed that there is clear evidence that the MFA had an influence on business

confidence. Many (13 of 19) survey participants strongly agreed/agreed that 'the MFA II helped to restore confidence in the economy'<sup>311</sup>.

Nevertheless, while the amount of the confidence-boosting effect cannot be quantified, data show that MFA II (in conjunction with the IMF) had some – albeit limited – beneficial influence. One noteworthy example is credit ratings issued by prominent credit rating organisations. These ratings are closely monitored by the private sector and have a considerable effect on confidence in the business community. Between 2017 and 2019, examining the key determinants of Jordan's sovereign ratings revealed that credit rating agencies viewed the IMF and international assistance more broadly, including EU assistance, as positive factors, albeit not sufficient to avoid real downgrades. As a result, the country faced rising borrowing costs (increased risk premium) as a result of a heightened perceived risk of default. The majority of survey experts noted that there would have been further downgrades in sovereign debt in the absence of support.

Beyond the financial aspects, some individual conditions, if effectively implemented, were predicted to benefit the business community to some extent. These included: (i) condition #4 in relation to the appeals system in public procurement, as a well-functioning and transparent public procurement system can catalyse economic growth by stimulating the private sector and creating business opportunities for more people; (ii) condition #1 on the development of an efficient secondary market; and (iii) condition #9 on employment and trade, with easy access for domestic businesses to EU markets.

The experts surveyed and the focus group participants had mixed views on the effect of MFA II on business confidence. Although most experts surveyed (13 of 19) considered there to be a positive effect on business confidence, there was no consensus among focus participants that MFA operations had a positive impact on confidence. Rather, the latter noted the positive influence of MFA but suggested that investor confidence could only be achieved in combination with other factors in the long-term.

### ***Reinforcing Jordan's call for reform and conditionality design***

Overall, the experts assessed the EU's participation in Jordan's reform process as positive. Of 19 experts surveyed, 13 believed that 'the EU contributed to significant progress being made in key reform areas'. Likewise, the government and its entities strongly believed that MFA II provided an impetus for reform and was instrumental in speeding up the pace of certain reforms, as well as slightly altering the scope for increased impact (i.e. public procurement). Few interviewees pointed out that in the absence of the MFA, the reforms would still have happened, albeit at a slower pace.

The criticality of the EU push varied by reform area. By taking a firm stance, the EU was able to clearly press for improvement in the field of public procurement (missions reports reveal). In other areas, the EU push was less evident. Yet, most expert survey respondents noted that 'the EU could have used its leverage to promote deeper structural reforms' (12 of 19 strongly agreed/agreed). When prompted about deeper reforms that could have been advocated, respondents mentioned the areas of investment promotion (trade and export), government reforms support, capital formation and encouraging/improving export competitiveness.

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<sup>311</sup> The correct key message would be 'the MFA II, combined with the IMF programme, prevented a further drop in confidence in the economy', as the factors with established links to business confidence showed signs of deterioration over the period of implementation and as the confidence boosting effects are typically more associated with the MFA and IMF combined.

Most MFA II conditions were common conditions and built on the reform areas covered in the MoU for MFA I, or were covered in other multilateral development banks (MDB) or IFIs interventions (see Annex 3 on cross-conditionality and complementarities). There was close alignment between the conditions associated with the MFA and those of the IMF EFF and, to a lesser extent, the DPLs of the WB. In negotiating specific policy conditions, the European Commission was able to draw on the expertise and technical assistance of those institutions (e.g. social safety nets), while at the same time influencing their conditionality to some extent (e.g. public procurement).

Interviewees, and most notably national authorities, stressed that the recognition of cross-conditionalities improved the efficiency of operations as officials only had to report on progress once. This was particularly true for conditionalities in the areas of social safety nets, tax reforms, the water sector and debt sustainability . Cross-conditionality can be quite useful in strategic areas, as was the case for tax reforms and debt sustainability, but less so for the water sector, due to the complex nature of Jordan's energy and water sectors.



## **7 Comparative exercise and regional level analysis**

### **7.1 Cross-country comparison**

This study sought to understand the main similarities, differences and patterns in the two macro-financial assistance (MFA) operations, which shared common objectives, timeframe and regional context. More specifically, this section compares the following aspects of the two MFA operations:

- Geopolitical and macroeconomic context;
- Design and implementation;
- Outcomes and impacts.

#### **7.1.1 Geo-political and economic context**

**Since the Arab Spring, political change has been revolutionary in Tunisia and evolutionary in Jordan.** Following the first demonstrations in central Tunisia in December 2010<sup>312</sup>, a protest movement dubbed the 'Jasmine Revolution' spread quickly across the country and led to the ousting of President Ben Ali's authoritarian regime. In October 2011, Tunisians participated in a free election, with a democratically chosen president and prime minister taking office in December 2011. The 2014 adoption of Tunisia's Constitution by a democratically elected parliament and three national elections are key achievements of the Jasmine Revolution. However, the country is yet to establish itself as a full-fledged democracy. Since the parliamentary and presidential elections of 2019, Tunisia has experienced renewed political turmoil due to the weakened state of the parliament and political struggles between ruling institutions. By contrast, Jordan avoided any major challenges to its semi-authoritarian regime<sup>313</sup> in the wake of the Arab Spring. Protests were relatively small-scale in nature, demands were for political reform rather than regime change, and violence was limited. These protests were effectively contained by the Hashemite monarchy through the granting of monetary incentives and limited political concessions (e.g. creation of a Constitutional Court and changes to the Political Parties Law and the Public Assemblies Law). Since 2014, however, the State has re-established its control over the reform agenda. For example, in early 2016, parliament approved constitutional amendments strengthening the executive at the expense of the legislative and judiciary.

**While Tunisia leans towards the EU, Jordan is embedded in the geopolitics of the Middle East.** Tunisia's economy is strongly oriented towards the European Union (EU) (trade ties, IDE flows) and its population is culturally close to EU countries (particularly France) due to the presence of a large Tunisian diaspora in Europe. Jordan remains firmly embedded in the geopolitics of the Middle East, marked by the Israeli-Palestinian conflict and its consequences, including a large share of Jordanian citizens of Palestinian origin, the civil war in Syria, and the large number of Syrian refugees in Jordan.

**Looking at the macroeconomic context, both countries were similarly placed before the MFA operations.** In terms of their economic structure, both economies were small, similarly sized, and classed as 'middle income' countries by the World Bank (WB). Both countries have vast welfare systems providing generous subsidies, particularly for energy. Finally, both countries shared the same structural weaknesses in the run-up to the two MFA operations:

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<sup>312</sup> Triggered by the self-immolation of Mohamed Bouazizi, a street vendor protesting against his treatment by local officials.

<sup>313</sup> The Hashemite Kingdom of Jordan is a constitutional monarchy with a strong executive led by the king who rules and reigns. It is widely acknowledged that the authoritarian features of the political system outweigh its democratic institutions.

- Stubbornly high unemployment rates, running into double digits (particularly among young people);
- Persistently high levels of current account deficits (CAD);
- Public finances weighed down by weak tax revenues and large fiscal deficits;
- Substantial external financial, food and energy dependence;
- Deep-seated income inequalities;
- Weak competition due to the presence of oligopolies in Jordan and regulated domestic industries in Tunisia;
- Endemic corruption and cronyism.

One major point of difference was Jordan's far less sustainable path of debt accumulation in the years leading up to the MFA operation.

*Table 29. Macroeconomic snapshot pre-MFA (2016)*

	<b>Tunisia</b>	<b>Jordan</b>
Nominal GDP, USD billion	41,8	39,9
GDP per capita, USD	3.698	4.175
Debt to GDP ratio	62,3%	95,1%
CAD (as % of GDP)	-9,3%	-9,7%
Public sector deficit (as % of GDP)	-5,9%	-5%
Inflation (end of period) (% year-on-year change)	3,6%	1,2%
Unemployment (%)	15,5%	15,3%

*Source: IMF*

**Domestic instability and/or geo-political factors substantially weakened the two economies over the last decade creating dependence on external assistance.** Both countries have received support from multiple MFA operations during that time– see Table 29 . The main triggers for MFA II in Tunisia were domestic security threats, combined with the repercussions of the crisis in Libya, which heavily impacted tourism, transport and investment and, subsequently, the whole Tunisian economy. In Jordan, regional insecurity and the subsequent Syrian refugee influx presented a major challenge to an already struggling economy. MFA II was approved against the backdrop of an emerging balance of payments crisis, and in accordance with the commitments made at the 2016 'Supporting Syria and the Region' Conference in London.

Table 30. Overview of MFA programmes to Jordan and Tunisia



## JORDAN

- **MFA I (2015): EUR 180m loan** approved in a context of widening macroeconomic balances triggered by **external shocks** (Arab Spring, Syrian refugee crisis, repeated sabotage of the Arab Gas Pipeline)

- **MFA II (2017-2019): EUR 200m loan** approved in the context of economic deterioration caused by **persistence of the conflicts in neighbouring Syria and Iraq**

- **Ongoing MFAs (2020): EUR 500m loan** to help the country deal with the ongoing economic weaknesses caused by **regional instability and refugee influx + EUR 200m** to help to the country limit the economic fallout of the **coronavirus pandemic**



## TUNISIA

- **MFA I (2015-2017): EUR 250m loan** to support Tunisia's economic and political transition following the **Arab spring**

- **MFA II (2017-2019): EUR 500m loan** approved to help the country deal with the economic fallout of the **2015 terrorist attacks**

- **MFA III (2020): EUR 600m loan** to help to the country limit the economic fallout of the **coronavirus pandemic**

Source: ICF analysis



### 7.1.2 Design and implementation of the MFA operations

**The timetable of the two operations shared many common characteristics. There was a long time-lag between the MFA request and Memorandum of Understanding (MoU) signature in both cases (18-20 months).** In Tunisia, that delay reflected the fact that at the time of the MFA II request (August 2015), the MFA I implementation period had just begun (first disbursement in April 2015). In Jordan, there was no single blocking factor, but small delays added up: at the time of the MFA II request (March 2016), the International Monetary Fund Extended Fund Facility (IMF EFF) programme was still under negotiation (concluded in August 2016). Once the MFA II decision was adopted in December 2016, the discussions on the draft MoU dragged on for several months. In both countries, the first disbursements were made in October 2017. **The second disbursement also occurred at the same time, in July 2019, 21 months after the first disbursement,** reflecting delayed progress in the implementation of key reforms. For both the first and second tranches, instalments for Tunisia and Jordan were funded with the same transaction, given the close timing. The larger size of the combined transactions allowed the EU to obtain slightly better conditions, which it then passed on to the beneficiary countries.

**Although the MFA to Tunisia was bigger in absolute and in relative terms, the size of the assistance was appropriate in both cases when taking account of broader factors.** The Tunisian MFA II package of EUR 500 million corresponded to circa 0.6% and 0.9% of the Gross Domestic Product (GDP) in 2017 and 2019, respectively. The EUR 200 million provided to Jordan under MFA II was lower than the amount requested (EUR 350 million) and represented 0.3% of GDP in both 2017 and 2019, respectively. The size of the assistance was judged to be appropriate in both cases, in light of residual financing needs, burden-sharing considerations, and the wider package of assistance provided via EU budget support operations.

**MFA financing was provided to both countries in the form of highly concessional loans, mirroring the terms that the EU obtained on the market.** The loan form was justified in both cases by the countries' macroeconomic situations (e.g. per capita income, debt sustainability, poverty level), and in light of the other types of EU financial support provided in the form of grants.

Table 31. Overview of MFA II to Jordan and Tunisia

 <b>JORDAN</b>	 <b>TUNISIA</b>
<ul style="list-style-type: none"> <li>▪ Size: EUR 200m loan (5.65% of residual financing needs)</li> <li>▪ Time lag between request and EU approval: 9 months (Mar 2016 – Dec 2016)</li> <li>▪ Time lag between EU approval and MoU signature: 10 months (Dec 2016 – Sep 2017)</li> <li>▪ 2 disbursements:                             <ul style="list-style-type: none"> <li>– 2017 (0.3% of GDP)</li> <li>– 2019 (0.3% of GDP)</li> </ul> </li> <li>▪ 11 MFA conditions in the following areas: PFM, tax reforms, SSN, employment and trade, water sector</li> <li>▪ Linked to 2016 IMF EFF (USD 273m or 150% of country quota)</li> </ul>	<ul style="list-style-type: none"> <li>▪ Size: EUR 500m loan (10.75% of residual financing needs)</li> <li>▪ Time lag between request and EU approval: 11 months (Aug 2015 – Jul 2016)</li> <li>▪ Time lag between EU approval and MoU signature: 10 months (Jul 2016 – Apr 2017)</li> <li>▪ 3 disbursements:                             <ul style="list-style-type: none"> <li>– 2017 (0.6% of GDP)</li> <li>– 2 in 2019 (0.9% of GDP)</li> </ul> </li> <li>▪ 15 MFA conditions in the following areas: PFM and civil service, tax reforms, SSN, labour market, financial sector, investment climate, tourism</li> <li>▪ Linked to 2016 IMF EFF (USD 2.9bn or 375% of country quota)</li> </ul>

Source: ICF analysis

**Both operations contained a manageable number of conditions targeting some common thematic areas, such as public finance management (PFM), taxation, social safety net, and labour market.** The MFA to Jordan contained 11 structural conditions across five areas: (i) PFM; (ii) taxation; (iii) social safety net; (iv) employment and trade; and (v) water. The MFA to Tunisia contained 15 specific policy conditions under seven reform areas for the second and third tranches: (i) PFM and civil service reform, (ii) taxation, (iii) social protection, (iv) labour market; (v) financial sector, (vi) investment climate and (vii) tourism.

**Tunisia had a slightly greater focus on longer-term reform,** with MFA II containing more legislative/institutional change-related conditions, likely reflecting the EU's leverage in the country.

**Views on the adequacy of the formulation of the conditions varied between the two countries.** In Jordan, the national authorities believed that some conditions were vague and lacked specific detail on the evidence required to demonstrate fulfillment (e.g. the condition related to water sector reform was subject to several revisions). The Tunisian authorities, however, believed that the conditions were sufficiently specific to avoid misinterpretation, while also providing for a degree of flexibility in implementation.

**The Tunisian operation featured certain conditions that clearly promoted the EU's economic interests,** for example in the wording of some specific conditions (access of firms including foreign firms to public procurement, relaxation of market access rules for investors including foreign investors, Euro-Aviation agreement). Such conditions are not entirely consistent with the 'untied' nature of the assistance provided under MFA. In principle, the condition relating to the Euro-Mediterranean aviation agreement was particularly problematic.

Table 32. Typology of conditions

Type of condition	Jordan	Tunisia	
<b>Type A: concrete measures</b>	With immediate impacts	PFM: capacity building and developing and developing domestic secondary market (1); disengagement of audit bureau (2) Labour market: formal employment opportunities (9), vocational training (10) for Syrian refugees Water sector: selection of contractors (11)	3 conditions Labour market: Roll out of FORSATI programme (6); launch of “Contrat Dignite (7) PFM: Rollout of TUNEPS (9)
	With no immediate impacts	SSN: launch of HH survey (8); survey of refugees (10)	-
<b>Type B: actions forming part of a longer reform process</b>	Stepping stone	PFM: public debt management strategy (1); submission of audit bureau law (2) Tax: submission of income tax law (5); new framework for reduction of exemptions (6) Water sector: AP to reduce water sector losses (11) SSN: operational NUR (7)	5 conditions Civil service: Adoption of Strategy (1) SSN: Completion of social survey (4); AP for implementation of reforms (5); Strategic orientation note (11); submission of law to Parliament (12)
	Legislative/institutional change	PFM: appeals system for public procurement (4)	4 conditions Tourism: New aviation agreement (15) PFM: Adoption of the CdC law (2) Tax reform: Elimination of middle VAT rate (3); reducing exemptions (10)
	Follow-up on legislative/institutional change		3 conditions Financial sector: decrees deposit guarantee scheme (14) Investment climate: decrees and by-laws for investment code (8,13)

Source: ICF analysis

**The thematic areas addressed by the MFA conditionality were relevant and aligned with the countries’ own reform agendas.** In both Tunisia and Jordan, MFA conditions were clearly grounded in ex-ante analysis of each country’s reform needs and Operational Assessments (OA) of PFM circuits. As such, the two MFA operations addressed clearly identified weaknesses, although some reforms lacked popular support, e.g. income tax reform (Jordan) and civil service reform (Tunisia).

**MFA II conditions showed continuity with MFA I and built on previous lessons learned.** For instance, there were areas where MFA II focused on the same aspects of reform in a particular area, but at the next level, e.g. submission of law on CdC under MFA I and adoption of law under MFA II (Tunisia); training of Internal Control Units (ICU) under MFA I and withdrawal of Audit Bureau from pre-audit activities under MFA II (for trained ICUs). Examples are also evident of conditions under MFA I and MFA II promoting the same issue, given the lack of progress under MFA I (e.g. new income tax law, establishment of NUR, Audit Bureau in Jordan; social survey in Tunisia). Particularly in the case of Tunisia, lessons from MFA I were incorporated in the design of MFA II conditions. For example, the level of ambition of the social safety net

conditions under MFA II was better calibrated with national capacity, and measures related to the preparation of the Deep and Comprehensive Free Trade Area (DCFTA) were (rightly) excluded from the scope of MFA II.

**There was considerable cross-conditionality with other donors (IMF, World Bank (WB)).** In the case of Jordan, cross-conditionalities were observed in reforms relating to the tax regime, debt sustainability and water. In the Tunisian MFA operation, cross-conditionalities were evident in civil service reform (IMF), VAT reform (IMF), financial sector (IMF), investment climate (IMF, WB) social protection (IMF, WB), and public procurement (WB).

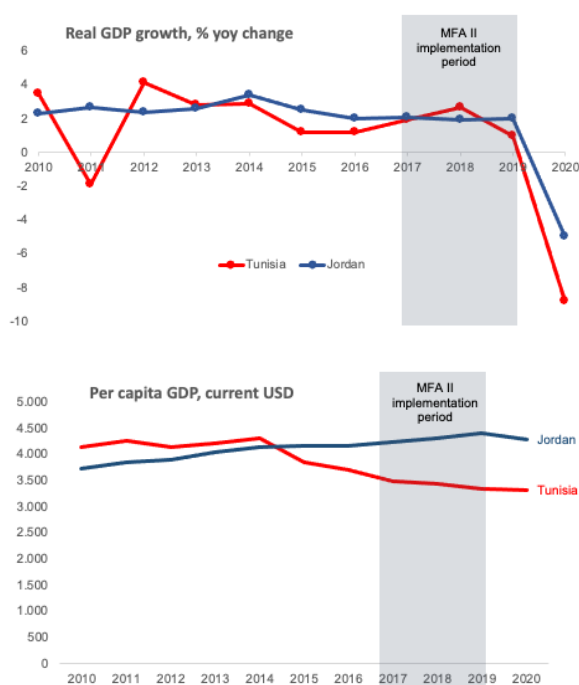
### 7.1.3 The outcomes and impacts of the two operations

#### 7.1.3.1 Macroeconomic performance

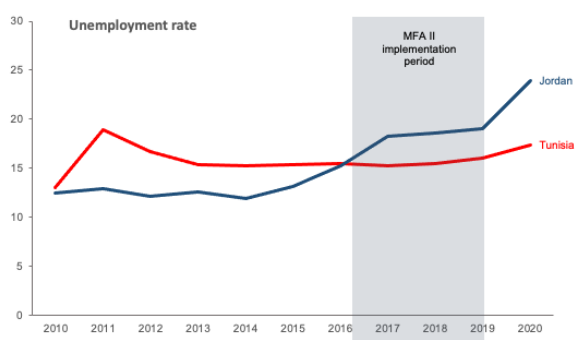
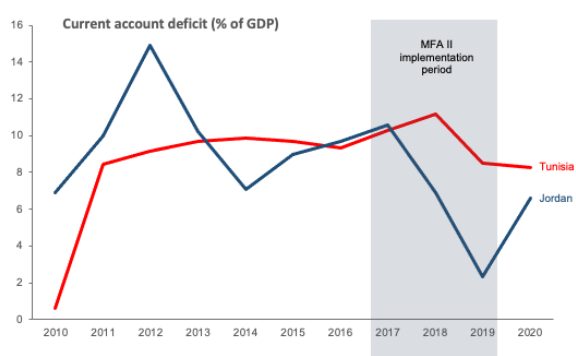
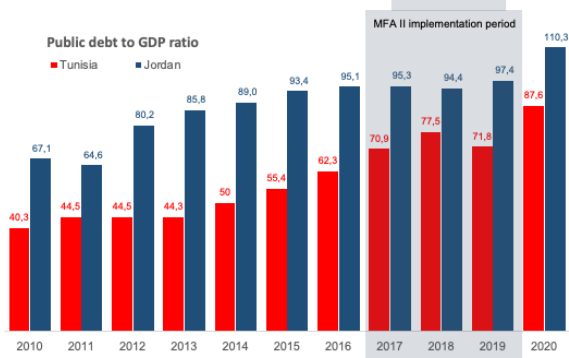
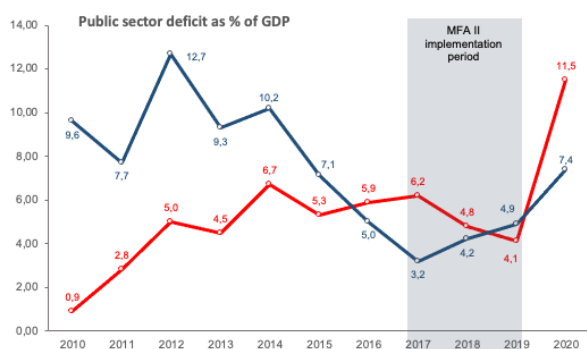
**In both countries, the macroeconomic situation remained challenging throughout 2016-2019.** In Jordan, the CAD was brought under control, but the GDP growth rate was flat during the MFA implementation period, while public finances worsened considerably. In Tunisia, despite some success in narrowing the twin deficits and a brief pick-up in GDP growth in 2018, the economy reverted to low growth in 2019. Unemployment remained stubbornly high in both countries during the MFA implementation period.

**The situation of the two countries differed slightly in terms of debt sustainability.** By the end of 2019, Jordan's debt was at high risk, even before the onset of the COVID-19 pandemic. A qualitative assessment of Tunisia's debt, by contrast, suggests that it briefly entered a sustainable path in 2019 and – without the pandemic - might have held that level, provided structural and public finance reforms continued.

Figure 41. Evolution of key macroeconomic indicators



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



Source: IMF WEO database and IMF country reports

**The macroeconomic situation would have been slightly worse in the absence of the MFA financing, at least in Tunisia. In both countries, debt sustainability would have remained largely similar to what was observed (the baseline) in the case of no MFA funding.** In a « no-MFA » scenario, the Tunisian authorities would have most likely met their financing needs via a combination of alternative financing from the domestic financial markets and cuts in public investments. This alternative adjustment path would have resulted in : higher cost of debt servicing debt ; decline in GDP as a result of cuts to public expenditure ; and inflationary

pressures from increased domestic financing. Overall, Tunisia's debt accumulation would have increased only slightly, as a result of the direct difference in interest payments (comparing the costlier domestic financing compared to MFA terms) and the indirect effect on interest demanded by private investors due to weakened confidence. Cumulatively the difference in the cost of borrowing is estimated to lie around EUR 235 million for Tunisia, though this difference might have been lower if Tunisia was able to secure international support from other sources on preferential terms.

In contrast, the absence of MFA would have had virtually no direct impact on the Jordanian economy. This is because the Jordanian authorities would have met the resulting financing gap by issuing new debt in domestic markets, with the remainder covered by accelerated efforts to curb tax evasion. In the medium-term, despite debt sustainability indicators remaining unaffected, this would have resulted in an increase in the cost of borrowing. The domestic financial markets offered much higher interest rates (compared to the MFA's concessional rates) and there would be an indirect difference in the cost of interest payments on other issuances due to confidence impacts. Cumulatively the difference in the cost of borrowing would have represented 340 million for Jordan.

**The combined effect of no-MFA and no-IMF would however, have been catastrophic for the Jordanian economy.** While a range of views are present regarding the hypothetical no-MFA and no-IMF scenario, this report assesses that Jordan would have most likely lost access to international financial markets, further increasing the size of financing gap. Initial efforts to cover a financing gap of this size with domestic borrowing would most likely have resulted in deteriorating economic conditions, inflation and abandonment of the currency peg. This in turn would result in further destabilisation of the economy and an unsustainable debt trajectory.

Tunisia, on the other hand, would have most likely been able to meet its debt obligations in the short term. It is more likely that the Tunisian government would have been able to cover the financing gap (left by no MFA and no IMF support) using a range of options including significant cuts to public investment and increased domestic debt issuances. This alternative adjustment path would however, have had significant social and economic impacts (a 13% decline in GDP in 2025 compared to the baseline). Tunisia's debt sustainability would have seriously weakened. By 2025, it was estimated that the public-debt-to-GDP ratio would have increased to 93.8% of GDP, against 84.4% in the baseline.

However, it is also possible that the Tunisian authorities could have secured international support or increased tax revenues, reducing the need for cuts to public investment and increased domestic borrowing. These, to some extent and depending on the amounts, might have alleviated some of the negative impacts on debt sustainability or the GDP, if used as an alternative to cuts to public investment or increased domestic borrowing. However, it is not possible to reliably assess the amounts that could have been obtained from these alternative sources.

#### 7.1.3.2 Social impact of the MFA operations

**Both MFA operations included conditions of a social nature.** Both operations included conditions aimed at (i) improving the targeting of social benefits (SSN reforms); (ii) enhancing tax collection while moving towards a simpler and more equitable tax system (tax reforms); (iii) addressing high levels of unemployment (Tunisia) and creating employment opportunities for Syrian refugees (Jordan).

**These reforms are starting to bear fruit.** For example, in both countries there have been improvements in SSN monitoring / administration systems. In Tunisia, increases in Programme National d'Aide aux Familles Nécessiteuses (PNAFN) monthly disbursements and coverage were identified. There is also tentative evidence of improved targeting and one can see the positive effects of active labour market policies. Limited (social) impacts of tax reform. In Jordan there have been



improvements to access to work for Syrian refugees. Tax reforms on the other hand have generated limited (as in the case of Tunisia) or mixed (in the case of Jordan) social impacts.

**In the absence of MFA II, the social situation would have been negatively affected.** Negative effects would have occurred through direct channels in both countries (slower or more superficial progress with key reforms such as social safety net reforms and labour market policy) as well as via indirect channels in Tunisia (higher costs of living and lost income stemming from GDP impacts).

**Social impacts would have been severe in the absence of both the MFA and IMF funding.** In the absence of both MFA and IMF, indirect social impacts would have been much more severe with a predicted sharp decline in the output of the Tunisian economy, exacerbating existing labour market issues, dampening job creation and causing permanent damage to incomes. Coupled with accelerating inflation, this would have likely had severe impacts on living conditions. Additionally, public investment cuts would have had impacts on longer term conditions (on the infrastructure, quality of public services and security). In the case of Jordan, sharp deterioration in debt sustainability and economic outlook would have had severe social implications, such as economic recession, increased rates of unemployment, high levels of inflation and/ cuts to public services and wages, all of which would have had significant negative impacts on the social situation in Jordan.

#### 7.1.3.3 Structural reforms

**While all conditions were fulfilled in Jordan, a waiver was granted to Tunisia.** In the case of Jordan, all 11 conditions were fulfilled, although there were moderate to substantial delays in implementation of some conditions (tax reforms, Audit Bureau Law, public procurement). The Tunisian authorities fulfilled all but one condition, with the waiver in relation to the suppression of the VAT middle rate considered justified.

**Beyond the fulfilment of the conditions *stricto sensu*, both countries made tangible progress in certain areas.** In Tunisia, key progress was made on the legislative front, with the parliamentary adoption of key laws (external audit, social safety net), and on the technical front, with the creation of a scoring model to target vulnerable households (social safety net). In Jordan, notable progress is evident in social safety nets (establishment of NUR) and PFM (publication of the Debt Management Strategy for 2019-2023, complaints review mechanism, establishment of institutional architecture for audit).

**Reform was more challenging in some areas.** In Tunisia, progress was more fragmented in the areas of tax reform and investment climate, with the decisions showing no real willingness to change the system for the better. Jordan made steady progress in tax reforms, but continuing activity is essential in order to provide a much-needed sustainable source of revenue to the government. Deeper reform is also needed in the areas of economic inclusion of Syrian refugees, accountability on socioeconomic data, and water sector reform.

**Capacity issues were one of the main factors causing delays in implementing reform.** In Jordan, the authorities were very slow in their responses, owing to a high level of bureaucracy and associated indecisiveness in the public sector. Other constraints on capacity included a lack of adequate resources, constant turnover of staff, excessive red tape, burdensome administrative practices, and hierarchical complexity. Additional issues in Tunisia blocking reforms included political instability resulting from frequent changes of governments and fragmentation at the parliament, and strong socioeconomic demands that went against reform plans.

#### 7.1.4 Lessons learned for the design of the MFA operations

The comparative study offers a number of lessons with respect to the design of MFA operations, particularly for structural reform. These are summarised below.

**The added value of cross-conditionality depends on the reform area and the country specifics.** There is less of a need for cross-conditions where donors are very well coordinated, as in the case of Tunisia, where donors can refer to the common matrix of policy conditions to pick reforms. In Jordan, the added value of cross-conditions can be higher as they can be used as a mechanism to limit the burden on authorities. Given the constraints of the MFA instrument, intensive use of cross conditions does not seem appropriate. It does not eliminate the risk of discrepancies between different donor programmes, despite perfect alignment at the beginning of a programme. Other donors (e.g. IMF) typically have more freedom to renegotiate conditions, while the MFA instrument does not offer such flexibility, meaning that discrepancies can occur over time. In general, it seems best to reduce the number of cross conditions to strategic issues, where there is a need to politically reinforce or signal support for a particular reform effort. The reform in question should be supported in the country itself ex-ante (in the public and/or among some political leaders), otherwise donors risk being perceived as overly intrusive (e.g. tax reform in Jordan).

The choice of reform areas is important. Experience suggests that **focusing on areas where the EU is heavily involved (through other programmes/instruments/past MFAs) has greater added value.** This was evident in Tunisia in the fields of external audit or social safety net reforms, and in Jordan in relation to PFM reform. The cross-conditions in relation to tax reforms newly and uniquely targeted through MFA II seemed less well thought through. For instance, in both countries, the MFA II conditions related to VAT reforms lacked guidance on how to address their potential social impacts. No specific safeguards were included in the respective texts of the MFA conditions, leading to different outcomes in both countries. The detrimental social consequences were mitigated more effectively in Tunisia than in Jordan.

**A number of ways in which donors can help to ensure ownership were identified, both at programme design and implementation stage.** Allowing beneficiary countries to propose a list of potential conditions along with the request for MFA support is one option. During the negotiation phase, there is a need to ensure buy-in from all ministries/departments concerned, beyond the coordinating ministry. The experience of Tunisia with the donor matrix (after MFA II negotiation) may be helpful here. During the implementation phase, the government should communicate with the public on the importance of reforms, or indeed donors could insist on such communication in their policy dialogue. The communication aspect was clearly lacking in both countries, resulting in the mobilisation of public opinion against certain reforms (Income Tax Law in Jordan, civil service reform and VAT reform in Tunisia).

## **7.2 Regional analysis**

### **7.2.1 Findings from the literature**

#### ***Findings from the literature on growth spillovers***

There is a growing body of empirical literature on the magnitude of growth spillovers from one set of countries to another in various geographical settings (intraregional, interregional, global) and the different channels of transmission through which these spillover effects pass<sup>314</sup>. Specific IMF studies on regional spillovers show that regional linkages could occur through a wide range of channels, including trade, tourism, FDI, bank lending, tax, migration and remittances. A number of Regional Economic Outlooks produced by the IMF have analysed the impact of the regions' leading

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<sup>314</sup> For example, Kose et al. (2017). 'The global role of the US economy linkages, policies and spillovers.' World Bank Group Policy Research Working Paper 7962; Poirson, H. and Weber, S. (2011). 'Growth spillover dynamics from crisis to recovery.' IMF WP/11/218; Laxton, D. and Prasad, E. (2000). 'International spillovers of macroeconomic shocks.' IMF WP 00/101.

economies on their neighbours' output, using econometric tools such as panel regressions, Vector Auto Regression models (VARs) and Global Vector Auto Regression models (GVARs) (see Table 32). The results suggest that major emerging countries can generate significant regional spillovers through trade, while regional financial market linkages are generally less significant. According to wider literature, in addition to the trade and financial channels for the transmission of growth shocks within a region, there may also be significant spillovers through less measurable channels, including policy, confidence, political instability, or security concerns<sup>315</sup>.

Table 33. A selection of IMF studies on regional spillovers

Study	Country	Spillover channels (qualitative assessment)	Econometric tool	Results
<b>Regional Economic Outlook, Asia and Pacific, 2014</b>	China	Mainly trade Limited regional financial integration	Panel regression	Significant regional spillovers: 1% decline in China's growth would lower GDP growth in the median Asian economy by 0.3%, twice as much as the estimated impact for the median non-Asian economy
<b>Regional Economic Outlook, Sub-Saharan Africa, 2012</b>	South Africa	Trade; Fiscal (Southern African Customs Union)  Monetary (Lesotho, Namibia and Swaziland peg their currencies to the rand); Remittances  Financial (FDI and subsidiaries of South African banks in the region)	Dynamic Panel Regressions and VAR	No significant regional spillovers found
<b>Regional Economic Outlook, Western Hemisphere, 2012</b>	Brazil	Mainly trade Limited regional financial integration	VAR	Significant impact on the Southern Cone economies: 1% decline in Brazil's growth would reduce Paraguay's output by 0.9% after a year and Argentina, Bolivia and Uruguay's output by about 0.25%
<b>India Article IV report, 2014</b>	India	Trade; Monetary (Nepal pegs its currency to the rupee); Financial (FDI); Remittances	GVAR	Significant spillovers on Nepal (1% decline in India GDP would lower Nepal's GDP by 0.21% after one year) but modest impact on the remaining South Asian countries

Source: IMF (2014). 2014 triennial surveillance review - external study - risks and spillovers.

<sup>315</sup> World Bank (2016). Regional integration and spillovers.

### **7.2.2 Findings from the literature on impacts of economic financial assistance beyond borders**

A review of the literature on the potential impacts of macroeconomic assistance logically highlights a focus on domestic (national) impacts. Even if effects of programmes may be somewhat expected to transcend national boundaries, little attention has been paid to the potential spillover effects of such assistance on neighbouring countries and trade partners (Askarov and Doucouliagos, 2015; Dedehouanou and Kane, 2021).

From the few existing references, two main channels were identified, in line with the literature on growth spillovers:

- **Macroeconomic channels:** for Demir and Duan (2020), the assistance could result in income effects within the recipient country that may increase the demand for goods and services from neighbouring countries. Askarov and Doucouliagos (2015) observed that positive spillover effects sometimes emerge through improvement in productivity and currency appreciation<sup>316</sup>.
- **Other channels.** Easterly and Levine (1998) point out that in cases where the recipients of financial assistance are sometimes required to implement structural reforms, if successful, neighbouring countries may adopt the same reform measures that promote growth. In this sense, such effects may result in what Meadows (2009) calls 'balancing feedback', where successful reforms are emulated across neighbouring countries to encourage foreign assistance for reform support (Vreeland, 2003<sup>317</sup>). Nations in transition often observe and emulate relevant developments in others (Askarov and Doucouliagos, 2015).

### **7.2.3 Importance of Jordan and Tunisia for the macroeconomic stability of the MENA region and evidence of regional spillovers**

Jordan and Tunisia account for 5.0% of the overall (MENA) population. They are two rather small-sized economies in MENA, especially looking at the whole MENA region as per the WB definition<sup>318</sup>, including oil exporters. Together, these two countries account for about 3.0% of the MENA region's GDP (see Figure 43 below)<sup>319</sup>. However, with respect to the Southern Neighbourhood, Tunisia and Jordan account for a larger share of the region's GDP, at 15.0%.

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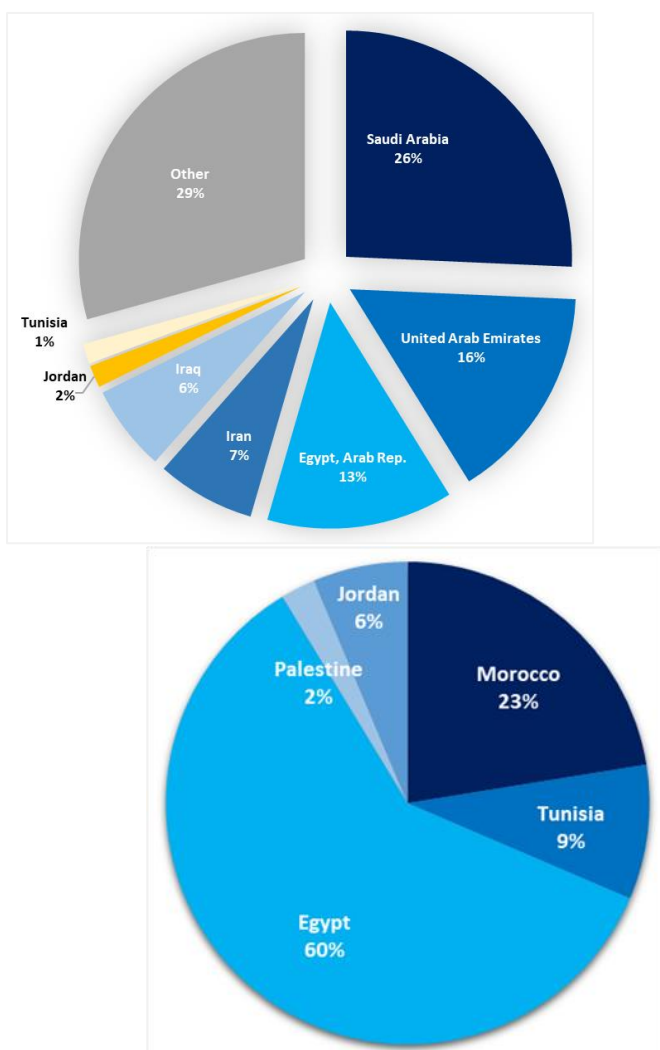
<sup>316</sup> Askarov, Z. and Doucouliagos, H. (2015). 'Spatial aid spillovers during transition'. *European Journal of Political Economy*, 40, 79-95.

<sup>317</sup> Vreeland, J. R. (2003). 'Why do governments and the IMF enter into agreements? Statistically selected cases'. *International Political Science Review*, 24(3), 321-343.

<sup>318</sup> Algeria; Bahrain; Djibouti; Egypt, Arab Rep.; Iran, Islamic Rep.; Iraq; Israel; Jordan; Kuwait; Lebanon; Libya; Malta; Morocco; Oman; Qatar; Saudi Arabia; Syrian Arab Republic; Tunisia; UAE; West Bank and Gaza; Yemen.

<sup>319</sup> WB data: 'GDP (current USD) - Middle East & North Africa.' Available at: <https://data.worldbank.org/indicator/NY.GDP.MKTP.CD?locations=ZQ>

Figure 42. Economic output of Jordan and Tunisia as a share of the overall MENA economy and the Southern Neighbourhood



The pie chart above relates to the MENA region; the one below to the Southern Neighbourhood (please note that Syria is not included as latest GDP data were not available). Source: WB data.

They are not key trade partners for countries in the region and together absorb less than 1% of the region’s total exports<sup>320</sup>. Nor do Jordan and Tunisia feature among the top investors of the region: at end-2018, Jordan’s outward FDI represented 0.4% of total outward FDI stocks of the MENA region, and Tunisia’s was 0.3%. Major investors from the region are all oil exporters and include Saudi Arabia (61%), Kuwait (19%) and Bahrain (11%)<sup>321</sup>. Remittances outflows from Jordan and Tunisia to other countries are not significant, although higher from Jordan (USD 613 million, compared to USD 27 million for Tunisia on average over the period 2016-2019)<sup>322</sup>.

<sup>320</sup> WB data. See World Integrated Trade Solution. Available at: <https://wits.worldbank.org/countrysnapshot/en/MEA/textview>

<sup>321</sup> OECD (2020). *OECD review of foreign direct investment statistics: Jordan*; OECD (2020). *OECD review of foreign direct investment statistics: Tunisia*.

<sup>322</sup> WB annual remittances data: outflows.

Both Jordan and Tunisia have rather limited relations with the MENA region, with Jordan having rather more links than Tunisia. For example, 25% of Jordan's imports come from the MENA region, compared to only 12% in the case of Tunisia<sup>323</sup>.

Table 34. Trade ties of Jordan and Tunisia

Recipient(s)	Value of total exports - in USD billion (yearly average for 2016-2019)	Value of total imports - in USD billion (yearly average for 2016-2019)	% of exports going to the EU-27	% of imports originating from the EU-27	% of trade with EU	% of exports going to other key MENA countries	% of imports originating from other key MENA countries
Tunisia	14.6	21.1	70.9%	48.3%	57.9%	10.0%	12.0%
Jordan	7.8	19.8	2.1%	20.6%	14.7%	36.0%	25.0%

Countries from the MENA region seem to appear more frequently among top investors in Jordan than in Tunisia, though recent data are not available for Jordan. According to the latest publicly available bilateral FDI positions (end-2009), the main investors in Jordan were Saudi Arabia (18%), Kuwait (16%), the US (8%), UAE (8%) and Iraq (7%)<sup>324</sup>. For Tunisia, numbers are from 2018 and show UAE (22%), France (16%), Qatar (11%), Italy (8%), Germany (6%) and Spain (6%) among the top investors<sup>325</sup>.

Overall, due to the relative sizes of Jordan and Tunisia and limited intraregional ties, economic and financial shocks (of reasonable magnitude) emanating from Jordan and Tunisia are not expected to have significant regional effects.

This is in line with the findings from a 2016 WB study<sup>326</sup> that showed the region to be predominantly vulnerable to growth shocks originating from outside, as most of the external trade and financial ties of countries in the MENA region were with external countries. Intraregional growth spillovers even from one of the largest MENA economies (Egypt) were found to be small. Spillovers from a large neighbouring developing economy (Turkey) were also found to be limited. In contrast, spillovers from GCC countries (although not explicitly modelled due to lack of comparable data) were expected to be considerably larger, given large official development assistance (ODA) and remittance flows from GCC to non-GCC countries in the region.

This was confirmed by empirical evidence. A negative oil price shock will negatively impact Jordan and Tunisia. For instance, while the decrease in oil prices that resulted from the recent financial/health crises reduced the CAD in both countries, it also reduced remittances, FDI inflows and tourism revenues originating from the GCC. The same was true for exposure to the EU, with Tunisia particularly affected by the negative spillover effects of the crisis in the EU, which lowered EU demand for Tunisian exports.

<sup>323</sup> WB data. See World Integrated Trade Solution. Available at: <https://wits.worldbank.org/countrysnapshot/en/MEA/textview>

<sup>324</sup> OECD (2020). *OECD Review of Foreign Direct Investment Statistics: Jordan*.

<sup>325</sup> OECD (2020). *OECD Review of Foreign Direct Investment Statistics: Tunisia*.

<sup>326</sup> Ibid.

#### **7.2.4 Potential regional impacts of MFA II to Tunisia and Jordan**

MFA operations pursue objectives at national level. They are of limited size compared to the size of the supported economies. In a context where Tunisia and Jordan are not among the largest economies of the region and where intraregional integration is low, it is less likely that MFA operations would have direct macroeconomic impacts beyond borders. That said, MFA was part of a broader package and in the absence of such a broader package, and in a no MFA and no IMF scenario, shocks of large magnitude could have arisen, rendering negative spillovers more likely, especially for Jordan, where it is judged that debt sustainability would have been severely affected already in the short term (see Annex 11).

Despite having objectives at national level only, the MFA in Jordan was part of a broader package intended to help it to deal with the consequences of the Syrian refugee crisis, a crisis of a regional dimension. It contained specific policy conditionality supporting the scheme agreed in the EU-Jordan Compact, which eased the EU's rules of origin for Jordanian export companies employing a minimum share of Syrian refugees. In this way, MFA usefully complemented EU efforts through other instruments to address the refugee emergency in Jordan, including the ENI, humanitarian assistance and trade policy. The implicit expectation was that the MFA would contribute to enhancing the country's capacity to absorb refugees and prevent an overflow to the EU. By contrast, the crisis in Tunisia did not have that regional dimension and the MFA II to Tunisia was not directly intended to support EU migration policy. It may, however, have indirectly contributed to moderate the total outflow of economic migrants by helping to restore macroeconomic stability<sup>327</sup>. Following this logic, MFA impacts beyond borders would not necessarily be limited to the MENA region but concern the EU more directly.

Transmission channels are not always direct and measurable. Based on the experience from both Tunisia and Jordan (see Section 2 and the literature), crises in neighbouring countries can have tangible impacts on other countries in the region through channels such as image and confidence. Promoting stability in a single country (or two individual countries) can help to mitigate the negative image of this region, which is prone to social/political/security/military turmoil. This in turn should contribute to building confidence and attracting tourism and investment flows into the MENA region.

Finally, the demonstration effect is one the expected regional benefits from financial assistance programmes, according to the literature (see Section 7.2.1). There was no evidence that the MFA support, its pre-conditions or the reforms it promoted, prompted change in the region. No specific example could be pinpointed but interviewees generally felt that it could, in theory, play a role. This was certainly an expectation from the EU, particularly through the MFA II operation to Tunisia (the only example of a successful yet ongoing political transition), as a signal of support for democratic reform in the region.

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<sup>327</sup> Heliodoro Temprano Arroyo (2019). Using EU aid to address the root causes of migration and refugee flows.

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