European Commission

Ex-post evaluation of the first Macro-Financial Assistance operation in Tunisia over the period 2014 - 2017

Final Report

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List of abbreviations

AA	Association Agreement
ACAA	Agreement on Conformity Assessment and Acceptance
AFD	Agence Francaise de Développement
AfDB	African Development Bank
ANCSEP	Agence Nationale de Contrôle Sanitaire et Environnemental des Produits
ANER	Agence Nationale d'Evaluation des Risques
CAD	Current Account Deficit
CBT	Central Bank of Tunisia
CdC	Cour des Comptes
CONECT	Conféderation des Entreprises Citoyennes de Tunisie
CPR	Congress for the Republic
CRES	Centre de Recherches et d'Etudes Sociales
DCFTA	Deep and Comprehensive Free Trade Agreement
DSA	Debt Sustainability Analysis
EBRD	European Bank for Reconstruction and Development
EC	European Commission
EEAS	European External Action Service
EFF	Extended Facility Fund
EIB	European Investment Bank
EIDHR	European Instrument for Democracy and Human Rights
EIU	Economic Intelligence Unit
ENI	European Neighbourhood Instrument
ENP	European Neighbourhood Policy
ENPI	European Neighbourhood and Partnership Instrument
EU	European Union
FDI	Foreign Direct Investments
GDP	Gross Domestic Product
GIZ	German Society for International Cooperation
GNI	Gross National Income
GOJ DPL	Governance, Opportunities and Jobs Development Policy Loans
IACE	Institute Arabe des Chefs d'Entreprises
IDA	International Development Association
IMF	International Monetary Fund
INS	Institut National de la Statistique
LOB	Loi Organique Budgétaire

MDIIC	Ministry of Development, Investment and International Cooperation
MENA	Middle East and North Africa
MFA	Macro Financial Assistance
NEET	Not in Employment, Education or Training
NIS	National Institute of Statistics
OA	Operational Assessments
ODA	Official Development Assistance
PAI	Programme d'Appui a l'Intégration
PAR	Programme d’Appui à la Relance
PFM	Public Finance Management
PNAFN	Programme national d’ aide aux familles necessiteuse
SBA	Stand By Agreement
SIA	Social Impact Analysis
SSN	Social Safety Net
TA	Technical Assistance
TND	Tunisian Dinar
UGTT	Tunisian General Labour Union
UN	United Nation
US	United States
USAID	United States Agency for International Development
VAT	Value Added Taxes
WB	World Bank
WB DPO	World Bank Development Policy Operations

Abstract

In May 2014, the European Parliament and Council approved an MFA operation of EUR 300 million - as part of a wider package of international assistance - to support Tunisia's economic and political transition following the Arab spring. The aim of the MFA was to help Tunisia cover its external financing needs, and to support structural reforms. The assistance was disbursed in three tranches between May 2015 and July 2017, alongside IMF assistance and contributions from other donors like World Bank and African Development Bank. The MFA disbursements were linked to the fulfilment of nine specific structural reform conditions related to reforms in six areas namely, taxation, Public Finance Management, Social Safety Net, financial sector, public statistical system and trade.

This study constitutes an independent evaluation of the EU's MFA to Tunisia. Specifically, it analyses the operation's relevance, effectiveness, efficiency, EU added value and coherence. The study draws on evidence gathered through a mixed-methods approach, comprising both quantitative and qualitative research techniques. The study concludes that the size, form and timing of the operation were relevant and appropriate to Tunisia's financing needs, despite the delays in timetable. The MFA provided the Tunisian authorities with fiscal room for manoeuvre and had a small but positive impact on debt sustainability. The MFA conditionality was highly relevant and although de facto progress was slower than expected, it played a key role in focusing the authorities' attention on much needed reforms.

Extrait

En mai 2014, le Parlement européen et le Conseil ont approuvé une opération d'AMF d'un montant de 300 million d'euros, dans le cadre d'un ensemble de mesures d'assistance internationale, afin de soutenir la transition économique et politique de la Tunisie après le Printemps arabe. L'AMF avait pour but d'aider la Tunisie à couvrir ses besoins de financement extérieur, et de soutenir des réformes structurelles. L'assistance a été versée en trois tranches entre mai 2015 et juillet 2017, en complément de l'assistance du FMI et des contributions d'autres donateurs, dont la Banque mondiale et la Banque africaine de développement. Les versements d'AMF dépendaient du respect de neuf conditions de réforme structurelle précis, liées à des réformes dans les six domaines suivants : fiscalité, gestion des finances publiques, filet de sécurité sociale, secteur financier, système statistique public, commerce.

Cette étude est une évaluation indépendante de l'AMF de l'UE en faveur de la Tunisie. Plus précisément, elle analyse la pertinence, l'efficacité, l'efficience, la valeur ajoutée de l'UE et la cohérence de l'opération. Elle se fonde sur des éléments factuels réunis au moyen d'une méthodologie mixte appliquant des techniques de recherche à la fois quantitatives et qualitatives. Elle conclut que le montant, la forme et le calendrier de l'opération étaient pertinents et adaptés aux besoins de financement de la Tunisie, malgré les retards du calendrier. L'AMF a apporté une marge de manœuvre budgétaire aux autorités tunisiennes, produisant un impact réduit mais positif sur la viabilité de la dette. La conditionnalité de l'AMF était tout à fait pertinente ; les progrès de facto, bien que limités, ont joué un rôle important pour focaliser l'attention des autorités sur des réformes indispensables.

Executive summary

This report presents the results of the ex-post evaluation of the Macro-Financial Assistance I operation provided to Tunisia over the period 2015 - 2017. 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 two local independent experts based in Tunis specialising in economics and current affairs.

Background to the MFA operation in Tunisia

The 2011 Jasmine Revolution, sparked by widespread discontent over rising unemployment, growing inequalities, and falling living standards, initiated the country's transition towards a fully-fledged democracy. Yet, the ensuing domestic unrest as well as conflict in neighbouring Libya took a heavy toll on the country's economy with Tunisia's GDP contracting by nearly 2 per cent in 2011. While growth resumed in 2012 (3.9 per cent) ongoing social unrest, a deepening political crisis, and widening external and fiscal imbalances created considerable macroeconomic uncertainty.

Against this background, the Tunisian authorities requested the European Commission for MFA assistance in August 2013. The Commission's proposal for the MFA followed in December 2013 and the approval by the EP and the Council took place in May 2014. The Loan Agreement and the MoU were in turn signed between July and September 2014, while the ratification by the Tunisian parliament took place in March 2015.

The MFA was intended 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 face the current external and financial vulnerabilities stemming largely from the prolonged political and economic domestic transition'.* It accompanied the assistance from other international organisations notably the IMF, WB and the AfDB.

Eventually, the MFA was disbursed in full, in three instalments, over the period May 2015 - July 2017:

- First instalment of EUR 100 million loan, disbursed in May 2015;
- Second instalment of EUR 100 million loan, disbursed in December 2015; and,
- Third instalment of EUR 100 million loan, disbursed in July 2017

The disbursement under the MFA operation was, *inter alia*, dependent on the satisfactory fulfilment of nine reform conditions that focused on the following areas:

- Financial Sector (two condition);
- Public Finance Management (one conditions);
- Social Safety Net (two conditions);
- Statistics (one condition);
- Taxation (one condition); and,
- Trade (two conditions)

Purpose of the evaluation

This evaluation assesses, ex post, the contribution of the MFA facility to the macro-economic and structural adjustment of Tunisia. In so doing it examines:

- Whether the ex-ante considerations determining the design and terms of the operation were appropriate, taking due account of the economic, political and institutional context; and
- Whether the outcome of the programme met the intended objectives

Methodology

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

- **Desk research**, entailing a review and analysis of all relevant literature, official documentation and macroeconomic data;
- **Semi-structured interviews with key stakeholders**, of which a number were undertaken face-to-face during the course of two missions. Interviews were held with relevant staff from the European Commission, the EU Delegation to Tunisia in Tunis, officials from the relevant ministries and agencies in Tunisia (including the Ministry of Development, Investment and International Cooperation, the Ministry of Finance and the Central Bank of Tunisia), representatives of local civil society organisations and the business community, and representatives from international financial institutions (IMF, WB and EIB) as well as key bilateral donors;
- **Internal brainstorming session on counterfactual scenarios**, that took place at the interim stage of the evaluation and involved the core members of the ICF and Cambridge Econometrics teams as well as the local economist;
- **A focus group with the members of the local civil society**, including, iner alia, representatives from the University of Tunis, Council of Economic Affairs, Conféderation des Entreprises Citoyennes de Tunisie (CONECT) and Solidar Tunisia;
- **Delphi survey**, that collected views of selected panel of experts on the role and contribution of the MFA in achieving macroeconomic stability, easing external financing constraints and alleviating Tunisia's balance of payments and budgetary needs;
- **Two in-depth case studies,** on MFA promoted reforms in the areas of Social Safety Net and tax policy respectively;
- **A debt sustainability analysis** (DSA), assessing the sustainability of the Tunisian's public debt before and after the MFA operation;
- **A social impact analysis** (SIA), examining the extent to which the MFA potentially cushioned the social impact of the crisis; and,
- **A validation workshop**, hosted on Commission premises in Brussels on May 21st, 2019. The workshop was attended by European Commission representatives (DG ECFIN and EU Delegation), members of the ICF project team, local IMF official and representatives of the Tunisian Ministry of Development, Investment and International Cooperation. The aim was to discuss the study findings and recommendations for future MFA operation.

Findings and conclusions of the evaluation

Relevance

Size of the assistance

The MFA disbursements corresponded to circa 0.5 per cent and 0.3 per cent of GDP in 2015 and 2017 respectively. In absolute terms, the size of the MFA operation to Tunisia has been the third largest MFA operation since 2000. There was consensus among the key consulted stakeholders that an increase of the MFA size from initially proposed EUR 250 mln to EUR 300 mln, advocated strongly by some Member States, was an appropriate decision.

From the standpoint of the Ministry of Finance, Central Bank[1] and many experts consulted via Delphi survey, the size of the MFA envelope was meaningful, but not critical. Overall, considering the shrinking fiscal headroom, persisting balance of payment needs and also taking also into account other type of EU financial support provided to Tunisia, the size of the MFA financing was appropriate.

Form of the assistance

The MFA financing was provided in the form of EUR 300 mln loan on the highly concessional terms that could not have been obtained on the market. The initial assessment of the guiding principles including inter, alia, *per capita* income of Tunisia, debt sustainability and poverty level excluded correctly the grant component from the consideration. The form of the MFA (entirely loan) was therefore deemed appropriate.

Timing of disbursements

Despite protracted negotiations and ratification of the operation by the Tunisian Parliament and the subsequent time lag between 2nd and 3rd tranche, none of those delays have impaired the relevance of the MFA financial envelope that remained high given the prevailing macro-economic conditions and increasing budgetary needs of the Tunisian state following the terrorist attacks in 2015 and given impeding debt servicing obligations.

Conditionalities associated with MFA support

All six thematic areas namely (tax, Social Safety Net, financial sector, statistics, Public Financial Management, and trade) addressed by the MFA conditionality were relevant. The reforms promoted by the MFA were found to be in line with the country priorities and backed by thorough analytical work conducted by DG ECFIN which also comprised consultations with other donors present in Tunisia, in particular the World Bank and the IMF.

Likewise, at the level of specific conditions, the focus of most of the conditions was also (highly) relevant with some emblematic examples such as the reform of régime forfaitaire. In case of two particular conditions namely the trade related condition concerning the approximation of the industrial compulsory standards with the EU *acquis* and the SSN reform concerning the progress in the establishment of a unified database and targeting system based on a single Social Identification Number, it appears that their focus may have been too broad/ ambitious, albeit their relevance remained high.

Overall, the focus of the MFA reforms was found to be right. While some selected reforms were ambitious and arguably surpassed the capacity of the Tunisian authorities, they related to areas were fast and very meaningful improvements have been urgently needed.

Effectiveness

Role and contribution of the MFA in promoting macroeconomic stabilisation

The three MFA disbursements corresponded to circa 0.5 per cent and 0.3 per cent of GDP in 2015 and 2017 respectively, amount that was not negligible.

In the absence of the MFA ('Alternative 1'), the evidence suggested that obtaining alternative financing from the international financial markets would have been the most plausible course of action. While data available ex-post suggests that authorities would have been able to substitute MFA financing entirely from the market, it is worth emphasising that given the political and economic uncertainty prevailing at the time, access to market financing could not have been guaranteed ex ante. While access to the markets was there over 2015-2017, the difference in the cost of debt servicing between the MFA and the foreign borrowing stemming from the higher interest rates for the latter

[1] Interviews conducted during the mission in Tunisia

could have reached EUR 110 million accrued over 15 years. Shorter maturities available on the market versus those offered by the MFA would have also added further strains. The sole absence of the MFA would not have led to a deterioration of confidence and hence the implications for the dinar's exchange rate (depreciation) and higher inflation would have been very limited, if at all.

The hypothetical absence of both the EU MFA and IMF support programme ('Alternative 2') would have had far more severe implications. In fact, given 'catalytic effect' of the IMF assistance, its absence could have also resulted in the absence of AfDB and WB budget support operations. Under this scenario, this would have resulted in the absence of EUR 1099 mln, EUR 726 mln and EUR 835 mln in 2015, 2016 and 2017 respectively, or circa 3.1, 2.1 and 2.5 per cent of GDP in these three consecutive years. Facing gap of this size, the authorities would have had to resort to few options including far less concessionary lending from bilateral donors (Saudi Arabia and Qatar) and international financial markets (it is not possible to say with certainty whether the markets would have financed Tunisia as readily in absence of IMF support as it is highly likely that markets had factored in IMF support), and potentially some cuts of capital expenditures of limited size. Yet, those options would have had some clear drawbacks including higher costs of debt servicing (and shorter maturities), acceptance of opaque conditionality accompanying the financing from Gulf countries, and further decrease in public investment that was already 'cut to the bones'. The consequences for the real economy in the short-run would have comprised, inter alia, decline in output, even lower investment as well as some marked loss in consumer and business confidence translating into further depreciation of Tunisian dinar, rise in inflation and corresponding fall in household disposable income. Furthermore, absence of donors' programs would have also implied the absence of their conditionalities incentivising the reform effort.

Progress achieved in terms of the implementation of structural reforms

Overall, one should distinguish between progress in the reform implementation within the narrower scope, as defined in the text of the specific MFA conditions, on the one hand, and the overall progress in the broader sense as demonstrated by tangible results achieved, on the other hand.

In the first instance, the MFA has been broadly successful. Conditions related to the new banking law had the law on Central Bank made positive contributions and reinforced the efforts of the IMF. Although the law on Cour de Comptes submitted to the Parliament as part of the requirement set by the MFA condition stayed there for over three years, it was eventually passed a few weeks before the publication of this report. Likewise, the condition related to régime forfaitaire did play a material role in encouraging the authorities to limit the eligibility criteria to 70 industrial, commercial and service activities in 2014, one of a very few positive developments observed here over the recent years. In turn, the outcomes of the trade related condition concerning conversion of the existing system of industrial compulsory standards (*normes homologuées)* into a system aligned with that of the EU and the condition concerning the progress towards establishment of a unified database and targeting system based on a single Social Identification Number were far from impressive (the MFA was only one among many actors/instruments pushing for reforms), albeit the level of ambitiousness of these conditions was significant which set the corresponding bar for the assessment of their effectiveness high.

Yet, when one considered broader perspective (beyond the narrow definition of conditionality), progress has been considerably slower than expected in a number of areas including SSN reforms, trade or régime forfaitaire and there is little evidence of tangible results. This however, has to be viewed in the context of the challenging political context characterised by fragmented political landscape, strong vested interest, frequently changing governments, all of which reduced political ownership as well as weak institutional capacity.

Social impact

A counterfactual analysis of what the social situation might have been in the absence of MFA support suggested that, if MFA were not provided but IMF support continued, the indirect effects on the social situation in Tunisia would have been limited and come through direct channels, namely the MoU conditions relating to the social safety net. The indirect effects would have been limited because of the replacement of the MFA with alternative sources of financing.

Debt sustainability

In the event that the MFA had not been disbursed, Tunisia's debt sustainability is unlikely to have been adversely affected because there would not have been large changes in many of the variables which affect debt dynamics and therefore sustainability. The most likely outcome would have involved the government replacing the MFA funds by borrowing from international financial markets, leading to an increase in debt due to the higher cost of borrowing from financial markets (compared to the MFA's concessional rates). Yet, as the MFA was relatively small, this increase in debt would not have been large enough to drastically change the evolution of the debt burden indicators, and therefore Tunisia's public debt sustainability.

Efficiency

Capacity

The study team found some reduced capacity in some Tunisian institutions exposed throughout the design and implementation of the MFA that hindered reforms, albeit capacity was only one among many factors at play.

The impaired capacity was partially caused by budgetary pressures faced by many of the country's institutions leading to outflux of experienced staff and amplified, inter alia, by challenging political context (frequent changes of the governments), influential vested interests' groups having often a disproportionate say in the policy discussions (i.e. some trade unions), and the design of some of the conditions requiring cross-ministerial collaboration that added the difficulty to the task.

However, this deficiency in capacity has to be put in the context. Young Tunisian institutions have operated in the democratic context since only several years, a very limited time to expect full adjustment to materialise. Furthermore, it is also warranted to recognise that the level of ambitiousness of some of the MFA reforms was rather high and there has been also number of other conditionalities promoted by other donors that absorbed resources of the state apparatus.

Ownership of reforms

The level of ownership of the MFA operation turned out to be lower than initially anticipated by the European Commission. One of the main impediments to reform ownership was political instability resulting from frequent changes of governments.

Some of the reduced ownership had been anticipated by DG ECFIN at the outset of the operation i.e. by adjusting the nature and scope of the conditionality. Yet, discrepancy between the initial expectations and actual ownership level was still fairly high.

Monitoring

DG ECFIN and the EU Delegation noted some weaknesses in the coordination of the MFA on the Tunisian side led by the MDIIC. Overall, the monitoring of this operation resembled closely what was done for many past MFA operations in other countries, and was found as appropriate.

EU added value

In financial terms, the MFA operation provided clear EU added value in the sense that it eased some balance of payment pressures and increased the fiscal headroom for public authorities. It also generated financial savings for Tunisian authorities thanks to the concessional interest rates of the MFA loan (circa EUR 110 mln accrued over 15 years had the authorities borrowed similar monies on the international markets) of which maturity was longer than what would have been available on the market.

The non-financial added value from MFA was mostly linked to the reinforcing effect it had for several reforms. Symbolically, the MFA coming from the EU being Tunisia's primary partner, it enhanced the overall EU support package provided to the country, that in turn demonstrated the reinforced EU commitment and support for Tunisia on its transition journey towards fully fledged democracy.

Coherence

The MFA was well aligned with the broad policy framework guiding the EU – Tunisia relations. It was one of a number of instruments to support the objectives of the Association Agreement, European Neighbourhood Policy (ENP), "Privileged Partnership" and Deep and Comprehensive Free Trade Agreement (DCFTA) still under discussion. It formed part of the wider package of EU support to Tunisia post Revolution, and it was also coherent with the assistance provided by other international organisations notably the IMF and WB (also at the conditionality level).

Projet de résumé analytique

Ce rapport présente les résultats de l'évaluation ex post de l'opération d'assistance macrofinancière I octroyée à la Tunisie au cours de la période 2015-2017. L'évaluation a été demandée par la direction générale des affaires économiques et financières (DG ECFIN). Le travail a été réalisé par ICF en collaboration avec Cambridge Econometrics et deux experts indépendants locaux, situés à Tunis, spécialistes de l'économie et des affaires publiques.

Contexte de l'opération d'AMF en Tunisie

En 2011, la révolution de jasmin, suscitée par un mécontentement généralisé face à la hausse du chômage et des inégalités et à la baisse du niveau de vie, a enclenché la transition du pays vers une démocratie à part entière. Pourtant, les troubles intérieurs qui s'en sont ensuivis, ainsi que les conflits en Libye voisine, ont lourdement pesé sur l'économie du pays, le PIB de la Tunisie se contractant de près de 2 % en 2011. Tandis que le pays renouait avec la croissance l'année suivante (3,9 % en 2012), la poursuite de l'agitation sociale, l'aggravation de la crise politique et l'accroissement des déséquilibres externes et budgétaires ont entraîné une incertitude macroéconomique considérable.

Dans ce contexte, en août 2013, les autorités tunisiennes ont sollicité une assistance macrofinancière auprès de la Commission européenne. La proposition d'AMF de la Commission a été présentée en décembre 2013, puis approuvée par le Parlement européen et le Conseil en mai 2014. La convention de prêt et le protocole d'accord ont été signés entre juillet et septembre 2014 ; leur ratification par le Parlement tunisien est intervenue en mars 2015.

L'AMF avait pour but d'« *alléger les contraintes financières extérieures du pays, les besoins de sa balance des paiements et de ses finances publiques, de renforcer les réserves de change du pays et de l'aider à affronter les vulnérabilités externes et financières découlant pour l'essentiel de la longue transition politique et économique nationale.* » Elle complétait l'assistance octroyée par d'autres organisations internationales, dont le FMI, la Banque mondiale et la Banque africaine de développement.

À terme, l'AMF a été totalement déboursée, en trois versements, au cours de la période s'étalant de mai 2015 à juillet 2017.

- Premier versement de 100 millions d'euros, déboursé en mai 2015 ;
- Deuxième versement de 100 millions d'euros, déboursé en décembre 2015 ; et
- Troisième versement de 100 millions d'euros, déboursé en juillet 2017.

Le versement au titre de l'opération d'AMF dépendait, entre autres, du respect des neuf conditions de réforme portant sur les domaines suivants :

- Secteur financier (deux conditions) ;
- Gestion des finances publiques (une condition) ;
- Filet de sécurité sociale (deux conditions) ;
- Statistiques (une condition) ;
- Fiscalité (une condition) ; et
- Commerce (deux conditions).

Objet de l'évaluation

Cette évaluation examine, a posteriori, la contribution de l'AMF à l'adaptation macroéconomique et structurelle de la Tunisie. À cet effet, elle examine :

- Si les considérations ex ante déterminant la structure et les modalités de l’opération étaient adaptées, compte tenu du contexte économique, politique et institutionnel; et
- Si le programme a rempli ses objectifs.

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 différentes 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-guidés avec les principaux acteurs**, dont un certain nombre ont été menés en face à face au cours de deux missions. Des entretiens ont eu lieu avec le personnel compétent de la Commission européenne, de la délégation de l’UE en Tunisie à Tunis, des représentants des ministères et organismes concernés en Tunisie (y compris le ministère du Développement, de l’Investissement et de la Coopération internationale, le ministère des Finances et la Banque centrale de Tunisie), des représentants d’organisations de la société civile et de la communauté des affaires, et des représentants d’établissements financiers internationaux (FMI, Banque mondiale et Banque européenne d’investissement), ainsi que des principaux donateurs bilatéraux ;
- **Session de réflexion interne portant sur des scénarios hypothétiques**, qui s’est déroulée lors de l’étape intermédiaire de l’évaluation et à laquelle ont participé les principaux membres des équipes d’ICF et de Cambridge Econometrics, ainsi que l’économiste local ;
- **Groupe de réflexion avec des membres de la société civile**, notamment, entre autres, des représentants de l’Université de Tunis, du Conseil des Affaires économiques, de la Confédération des Entreprises Citoyennes de Tunisie (CONECT) et de Solidar Tunisie ;
- **Enquête Delphi**, recueillant l’avis d’un groupe d’experts sélectionnés quant au rôle et à la contribution de l’AMF pour parvenir à la stabilité macroéconomique, à l’allègement des contraintes financières extérieures ainsi que des besoins de la balance des paiements et des finances publiques de la Tunisie ;
- **Deux études de cas approfondies** portant sur des réformes préconisées par l’AMF dans les domaines du filet de sécurité sociale et de la politique budgétaire ;
- **Analyse de la viabilité de la dette** évaluant la viabilité de la dette publique tunisienne avant et après pendant l’opération d’AMF ;
- **Analyse de l’impact social**, étudiant dans quelle mesure l’AMF aurait atténué l’impact social de la crise ;
- **Atelier de validation**, organisé dans les locaux de la Commission le 21 mai 2019, en présence de représentants de la Commission européenne (DG ECFIN et délégation de l’UE), de membres de l’équipe de projet ICF, de représentants locaux de la Banque mondiale et du FMI, ainsi que de représentant du ministère du Développement, de l’Investissement et de la Coopération internationale et du ministère des Finances de Tunisie, dans l’objectif de discuter les constatations et recommandations de l’étude en vue d’une future opération d’AMF.

Constatations et conclusions de l'évaluation

Pertinence

Montant de l'assistance

Les versements d'AMF correspondaient à environ 0,5 % et 0,3 % du PIB en 2015 et 2017, respectivement. En termes absolus, par son montant, l'opération d'AMF en faveur de la Tunisie est la troisième plus grosse opération d'AMF qui soit intervenue depuis 2000. Les principaux acteurs consultés se sont accordés à reconnaître qu'il avait été avisé d'augmenter le montant de l'AMF, des 250 millions d'euros initialement proposés à 300 millions d'euros, comme l'avaient ardemment préconisé certains États membres.

Du point de vue du ministère des Finances, de la Banque centrale[2] et des nombreux experts consultés dans le cadre de l'enquête Delphi, le montant de l'enveloppe d'AMF était judicieux, mais pas indispensable. Dans l'ensemble, au vu du rétrécissement de la marge de manœuvre budgétaire, de la persistance des besoins de balance des paiements, mais aussi compte tenu des autres types d'aide financière de l'UE octroyés à la Tunisie, le montant du financement d'AMF était adapté.

Forme de l'assistance

Le financement d'AMF a été octroyé sous la forme d'un prêt de 300 millions d'euros à des conditions très favorables qui n'auraient pas pu être obtenues sur le marché. La première évaluation des principes directeurs, notamment, entre autres, du revenu par tête de la Tunisie, de la viabilité de la dette et du niveau de pauvreté, excluait à juste titre le volet « dons » de l'examen. La forme de l'AMF (prêt intégral) a par conséquent été jugée adaptée.

Calendrier des versements

Malgré la lenteur des négociations et de la ratification de l'opération par le Parlement tunisien et le délai en résultant entre les deuxième et troisième tranches, aucun de ces retards n'a amoindri la pertinence de l'enveloppe financière AMF I, qui est restée grande au vu des conditions macroéconomiques et de l'accroissement des besoins budgétaires de l'État tunisien suite aux attaques terroristes de 2015, mais aussi au vu de la lourdeur de ses obligations de service de la dette.

Conditions associées à l'AMF

Les six domaines thématiques (fiscalité, filet de sécurité sociale, secteur financier, statistiques, gestion des finances publiques, commerce) prévus par les conditions de l'AMF étaient tous pertinents. Les réformes préconisées par l'AMF ont été jugées conformes aux priorités du pays, étayées par le travail analytique approfondi réalisé par la DG ECFIN, prévoyant également des consultations avec d'autres donateurs présents en Tunisie, dont la Banque mondiale et le FMI.

De la même manière, s'agissant des conditions précises, leur point de mire était également (très) pertinent, la réforme du régime forfaitaire figurant au nombre des exemples emblématiques. Dans le cas de deux d'entre elles, à savoir la condition se rapportant au commerce, concernant le rapprochement entre les normes homologuées et les acquis communautaires, et la réforme du filet de sécurité sociale concernant les progrès accomplis dans l'établissement d'une base de données unifiée et d'un système de ciblage reposant sur un numéro d'identification social unique, il s'avère que leur point de mire était peut-être trop large ou ambitieux, quoique tout à fait pertinent.

Dans l'ensemble, le point de mire des réformes de l'AMF a été jugé correct. Même si certaines réformes étaient ambitieuses et dépassaient vraisemblablement les capacités des autorités tunisiennes, elles se rapportaient à des domaines dans lesquels des améliorations rapides et tout à fait judicieuses s'imposaient de toute urgence.

[2] Entretiens réalisés au cours de la mission en Tunisie.

Efficacité

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

Les trois versements d'AMF correspondaient à environ 0,5 % et 0,3 % du PIB en 2015 et 2017, respectivement, ce qui représentait un montant non négligeable.

En l'absence de l'AMF (« Alternative 1 »), les faits suggéraient que le plus plausible aurait été d'obtenir un financement alternatif sur les marchés financiers internationaux. Même si les données disponibles a posteriori laissent penser que les autorités auraient pu remplacer le financement d'AMF par un financement obtenu exclusivement sur le marché, il faut souligner qu'au vu de l'incertitude politique et économique qui régnait à ce moment-là, l'accès à un financement sur le marché n'aurait pas pu être garanti ex ante. S'il était possible d'accéder aux marchés au cours de la période 2015-2017, la différence de coût du service de la dette entre l'AMF et l'emprunt étranger, découlant des taux d'intérêt plus élevés de ce dernier, aurait pu atteindre 110 millions d'euros sur quinze ans. Les échéances à plus court terme disponibles sur le marché, par rapport à celles de l'AMF, auraient également ajouté des contraintes supplémentaires. La simple absence de l'AMF n'aurait pas entraîné une détérioration de la confiance ; par conséquent, les éventuelles implications en termes de taux de change du dinar (dépréciation) et d'inflation plus élevée auraient été très limitées.

L'absence hypothétique de l'AMF de l'UE et du programme d'assistance du FMI (« Alternative 2 ») aurait eu des conséquences bien plus graves. De fait, au vu de l'« effet catalytique » de l'assistance du FMI, son absence aurait également entraîné l'absence des opérations d'appui budgétaire de la Banque africaine de développement et de la Banque mondiale. Dans ce cas, cela aurait entraîné l'absence de 1 099 millions d'euros, de 726 millions d'euros et de 835 millions d'euros en 2015, 2016 et 2017, respectivement, soit d'environ 3,1, 2,1 et 2,5 % de PIB au cours de ces trois années consécutives. Confrontées à un tel déficit, les autorités auraient été contraintes d'avoir recours à d'autres solutions, notamment à des prêts bien moins favorables auprès de donateurs bilatéraux (Arabie saoudite et Qatar) et des marchés financiers internationaux (il est impossible de dire avec certitude que les marchés auraient aussi volontiers financé la Tunisie en l'absence de l'appui du FMI ; il est fortement probable que les marchés avaient intégré l'appui du FMI), et éventuellement à des coupes budgétaires limitées. Cependant, ces possibilités auraient manifestement présenté des inconvénients, entraînant notamment un coût plus élevé de service de la dette (et des échéances plus courtes), l'acceptation de conditions opaques accompagnant le financement du Golfe et une réduction supplémentaire des dépenses publiques, qui étaient déjà réduites à peau de chagrin. Les conséquences pour l'économie réelle, à court terme, auraient entre autres pris la forme d'un déclin de la production, d'investissements encore plus faibles, ainsi que d'une perte marquée de la confiance des entreprises et des consommateurs, se traduisait par une dépréciation accrue du dinar tunisien, une augmentation de l'inflation et une chute proportionnelle du revenu disponible des ménages. Par ailleurs, l'absence des programmes des donateurs aurait également impliqué l'absence de leur conditions encourageant les efforts de réforme.

Progrès en matière de mise en œuvre des réformes structurelles

Dans l'ensemble, il convient de faire la distinction entre les progrès réalisés en matière de mise en œuvre des réformes, au sens strict, tel que défini dans le texte des conditions précises de l'AMF, d'une part, et les progrès généraux au sens large, tel que démontré par les résultats concrets obtenus, d'autre part.

Pour ce qui est du premier point, l'AMF a été couronnée de succès. Les conditions relatives à la nouvelle législation bancaire ont vu la loi concernant la Banque centrale apporter des contributions positives et ont renforcé les efforts du FMI. Bien que le projet de loi sur la Cour des comptes présenté au Parlement dans le cadre des exigences fixées par la condition de l'AMF n'ait pas avancé pendant plus de trois ans, il a fini par être adopté quelques semaines avant la publication de ce rapport. De la même manière, la condition relative au régime forfaitaire a joué un rôle important pour encourager les autorités à limiter les critères d'admissibilité à soixante-dix activités industrielles, commerciales et de services en 2014, ce qui est l'une des quelques évolutions positives observées ces dernières années. Et même si les résultats de la condition dans le domaine du commerce, concernant la conversion du système existant de normes homologuées en un système conforme à celui de l'UE, et ceux de la condition concernant les progrès accomplis dans l'établissement d'une base de données unifiée et d'un système de ciblage reposant sur un numéro d'identification social unique n'étaient vraiment pas impressionnants (l'AMF n'était que l'un des nombreux acteurs / instruments poussant aux réformes), il est plus que manifeste que leur niveau d'ambition était non négligeable et que la barre d'évaluation de leur efficacité avait été placée très haut.

Pourtant, si l'on considère les choses d'un point de vue plus large (au-delà de la définition étroite des conditions), les progrès ont été beaucoup plus lents que prévu dans plusieurs domaines, notamment les réformes du filet de sécurité sociale, du commerce ou du régime forfaitaire, et on ne constate que peu de résultats concrets. Toutefois, il faut replacer cette lenteur dans le contexte d'une situation politique difficile, caractérisée par un paysage politique fragmenté, des intérêts corporatistes forts, une valse des gouvernements, tous ces facteurs réduisant l'appropriation politique et affaiblissant les capacités des institutions.

Conséquences sociales

Une analyse contrefactuelle de ce que la situation sociale aurait pu être en l'absence de l'AMF laisse penser que, si l'AMF n'avait pas été octroyée mais que l'appui du FMI avait été maintenu, les conséquences indirectes sur la situation sociale en Tunisie auraient été limitées et seraient arrivées par des canaux directs, à savoir les conditions du protocole d'accord concernant le filet de sécurité sociale. Les conséquences indirectes auraient été limitées, puisque l'AMF aurait été remplacée par d'autres sources de financement.

Viabilité de la dette

Si l'AMF n'avait pas été octroyée, la viabilité de la dette tunisienne n'aurait probablement pas été affectée négativement, car un grand nombre des variables qui affectent la dynamique de la dette et donc sa viabilité n'auraient pas connu de changement important. Le résultat le plus probable aurait été que le gouvernement remplace les fonds de l'AMF par des emprunts sur les marchés financiers internationaux, entraînant une augmentation de l'endettement du fait de leur coût, plus élevé en comparaison avec les taux favorables de l'AMF. Pourtant, au vu du montant relativement faible de l'AMF, cette augmentation de l'endettement n'aurait pas suffi à infléchir de manière drastique l'évolution des indicateurs du fardeau de la dette, et donc de la viabilité de la dette publique tunisienne.

Efficience

Capacités

L'équipe chargée de l'étude a constaté une réduction des capacités de certaines institutions tunisiennes exposées pendant la préparation et la mise en œuvre de l'AMF, ce qui a entravé les réformes, même s'il ne s'agissait que d'un facteur parmi d'autres.

Ces capacités réduites ont été en partie causées par les pressions budgétaires auxquelles étaient confrontées un grand nombre des institutions du pays, entraînant le départ du personnel expérimenté, et amplifiées entre autres par le contexte politique difficile (fréquents changements de gouvernement), l'intervention souvent disproportionnée de groupes d'intérêt influents (c'est-à-dire de certains syndicats) dans les débats politiques, et par le fait que la préparation de certaines des conditions nécessitait une collaboration interministérielle, ce qui est venu s'ajouter aux difficultés existantes.

Toutefois, ce déficit de capacités doit être replacé dans son contexte. Les jeunes institutions tunisiennes ne fonctionnaient dans un contexte démocratique que depuis quelques années, ce qui ne suffisait pas pour qu'elles puissent totalement s'adapter. En outre, il faut également reconnaître que le niveau d'ambition de certaines des réformes de l'AMF était relativement élevé et que la mise en œuvre de plusieurs autres conditions demandées par d'autres donateurs ont absorbé les ressources de l'appareil d'État.

Adhésion aux réformes

L'adhésion à l'opération d'AMF s'est avérée plus faible que ce que la Commission européenne avait initialement prévu. L'instabilité politique découlant des fréquents changements de gouvernement a été l'un des principaux obstacles à cette adhésion.

La DG ECFIN avait cependant anticipé en partie cette baisse d'adhésion au début de l'opération, en modifiant la nature et la portée des conditions. Cependant, l'écart entre les attentes initiales et le niveau d'adhésion réel est resté assez important.

Suivi

La DG ECFIN et la délégation de l'UE ont remarqué certaines faiblesses dans la coordination de l'AMF du côté tunisien, sous la direction du ministère du Développement, de l'Investissement et de la Coopération. Dans l'ensemble, le suivi de cette opération ressemblait fortement à ce qui avait été fait pour de nombreuses opérations d'AMF antérieures dans d'autres pays, et a été jugé adapté.

Valeur ajoutée de l'UE

En termes financiers, l'opération d'AMF a apporté une valeur ajoutée de l'UE notable, dans le sens où elle a atténué certaines pressions liées à la balance des paiements et augmenté la marge de manœuvre budgétaire des autorités publiques. Elle a également généré des économies financières en leur faveur, grâce aux taux d'intérêt favorables du prêt d'AMF (environ 110 millions d'euros sur plus de quinze ans si les autorités avaient emprunté des montants comparables sur les marchés internationaux), dont l'échéance était plus longue que ce qui aurait été possible sur le marché.

La valeur ajoutée non financière de l'AMF était essentiellement liée à l'effet de renforcement qu'elle a eu sur certaines réformes. Symboliquement, l'AMF provenant de l'UE, principal partenaire de la Tunisie, elle a amélioré l'ensemble des aides apportées par l'UE au pays, démontrant ainsi l'engagement et le soutien de l'UE en faveur de la Tunisie dans sa transition vers une démocratie à part entière.

Cohérence

L'AMF correspondait bien au cadre stratégique général guidant les relations entre l'UE et la Tunisie. C'était l'un des instruments visant à appuyer les objectifs de l'accord d'association, de la politique européenne de voisinage (PEV), du « partenariat privilégié » et de l'accord de libre-échange complet et approfondi (ALECA) toujours à l'étude. Elle faisait partie de l'ensemble plus large de l'assistance octroyée par l'UE à la Tunisie après la révolution, en cohérence avec l'assistance octroyée par d'autres organisations internationales, dont le FMI et la Banque mondiale, également du point de vue de la conditionnalité

1 Introduction

This document constitutes the Final Report for an independent, external ex-post evaluation of the EU's Macro Financial Assistance (MFA) to Tunisia.

1.1 Scope of the evaluation

The evaluation focused on the MFA operation approved in 2014 (MFA I) to support the country's economic and political transition following the Arab spring. The MFA was provided in the form of a EUR 300 million loan to help Tunisia cover its budgetary and external financing needs, and to support reforms aimed at promoting social equity, addressing weaknesses in the financial sector, strengthening public finance management, and fostering trade and regulatory convergence with the EU.

A second MFA operation (MFA II) for EUR 500 million which was approved by the European Commission in July 2016 (2016/067/EU) falls outside the scope of the evaluation as it is still being implemented.

1.2 Purpose of the evaluation

The objective of this ex-post evaluation was:

- to analyse the impact of the MFA on the economy of Tunisian, and in particular, on the sustainability of its external and fiscal position; and
- to assess the added value of the European Union's (EU) intervention.

Specifically, the evaluation sought to draw lessons with respect to the EU's financial assistance, i.e.

- whether the ex-ante considerations, determining the design and terms of the operation were appropriate, taking due account of the economic, political and institutional context; and
- whether the outcome of the programme met the objectives.

The evaluation covered three main areas of analysis:

- the economic impact of the MFA operation on the economy of Tunisia;
- the value added of the EU intervention; and
- the sustainability of the country's external position as a result of the assistance.

These aforementioned areas were assessed along the following criteria: (1) relevance; (2) effectiveness; (3) efficiency; (4) EU added-value; and (5) coherence with other EU policies, and six specific evaluation questions.

Box 1. Evaluation questions

Question 1 (**relevance related**): *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?*

Question 2 (**effectiveness related**): *To what extent have the objectives of the MFA operation been achieved?*

Question 3 (**efficiency**): *Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country?*

Question 4 (**efficiency related**): *In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives?*

Question 5 (**EU-added value related**): *What was the rationale for an intervention at EU level and to what extent did the MFA operation add value compared to other* *interventions by other international donors, notably the IMF?*

Question 6 (**coherence related**): *Were the measures of the MFA operation in line with key principles, objectives and measures taken in other European Neighbourhood Policy towards Tunisia?*

Finally, the evaluation also comprised of two additional strands of analysis that assessed the impact of the MFA on the social sector and the public debt sustainability.

1.3 Structure of this Report

The remainder of this Report is structured as follows:

- Section 2 provides an overview of the key economic and political developments in Tunisia up to the crisis that prompted the IMF-EU assistance, during the assistance, and for the most recent post-MFA period;
- Section 3 provides a detailed description of the main characteristics of the MFA operation in scope;
- Section 4 presents the methodological approach to the study, and outlines the main caveats and limitations;
- Sections 5 to 9 provide the assessment against each of the five evaluation criteria, including conclusions for each of them;
- Sections 10 and 11 focus on the social impact and debt sustainability analyses respectively;
- Section 12 provides the conclusions.

The main report is supported by the following annexes provided in the stand-alone document:

- Annex 1: Consultation Strategy;
- Annex 2: IMF and other assistance packages;
- Annex 3: List of completed interviews;
- Annex 4: List of references;
- Annex 5: Evaluation framework;
- Annex 6: Social Impact Analysis;
- Annex 7: Debt Sustainability Analysis;
- Annex 8: Focus Group – summary;
- Annex 9: Delphi Survey Analysis;
- Annex 10: Case Study – SSN reforms;
- Annex 11: Case Study – tax reform.

2 Macro-Financial Assistance to Tunisia during 2014-2017

This section describes the main political and economic developments in Tunisia that triggered the 2014 MFA operation. The main macroeconomic developments during the implementation of the operation i.e. over the period 2014-17 are analysed under Section 6.1.1.

2.1.1 Political context leading to the need of the MFA

2.1.1.1 Decades of simmering discontent reach a boiling point in 2011 triggering the "Jasmine Revolution"

In the late 1980s, Tunisia became an authoritarian state. Although governed under a harsh regime, the country achieved notable economic performances overall, outpacing the rest of the Middle East and North Africa (MENA) region[8]. From early 2000s however, 'cracks' in the Tunisian model started to become apparent as it became clear that growth was only benefitting a connected few. Past economic success could no longer conceal the growing anger and frustration over lack of social and political inclusion, widening inequality between regions, rampant corruption, mounting unemployment and the rising cost of living.

Frustration and anger against continued economic hardship, coupled with fury over a self-immolation incident involving a young vegetable seller that took place in mid-December 2010 ignited nationwide protests[3]. Within days, the uprising spread to the major cities of Tunisia, eventually ending the 23-year rule of President Ben Ali on 14 January 2011 (see Box 2).

Box 2. The run up to the 2011 protests and the fall of the government

> Tunisia's "Jasmine Revolution" was the first popular uprising in the Middle East and North Africa region since the Iranian revolution of 1979. It led to the downfall of Ben Ali's regime, and also sparked other revolutions in the region.
>
> The "Jasmine Revolution" unfolded in three phases, as set out below.
>
> First, on December 17, 2010, a young Tunisian street vendor, Mohamed Bouazizi, set himself on fire to protest against having been mistreated by the Tunisian police because of his refusal to hand over his cart of vegetable produce. Demonstrations broke out in his rural hometown followed by protests in other areas of the country. A brutal security crackdown followed. The incident, along with the protest, topped the news on social media.
>
> Second, when protests reached Tunis, the government responded with even more brutality, arresting demonstrators, activists, and shutting down the Internet.
>
> Third, as clashes grew more violent, President Ben Ali declared a state of emergency and promised new legislative elections as well as the creation of 300,000 jobs within six months. Protesters were however not receptive and demanded for President Ben Ali to step down. Eventually, on January 14, 2011, Ben Ali and his family fled the country taking refuge in Saudi Arabia. This act "*marked the end of one of the Arab world's most repressive regimes and the beginning of an inspiration for the Arab Spring*[4]."

On 15 January 2011, the then Speaker of Parliament Fouad Mebazaa was sworn in as Interim President. Prime Minister Mohamed Ghannouchi, President of the Islamic Party Ennahdha, was asked to form a national unity government. That was the beginning of a

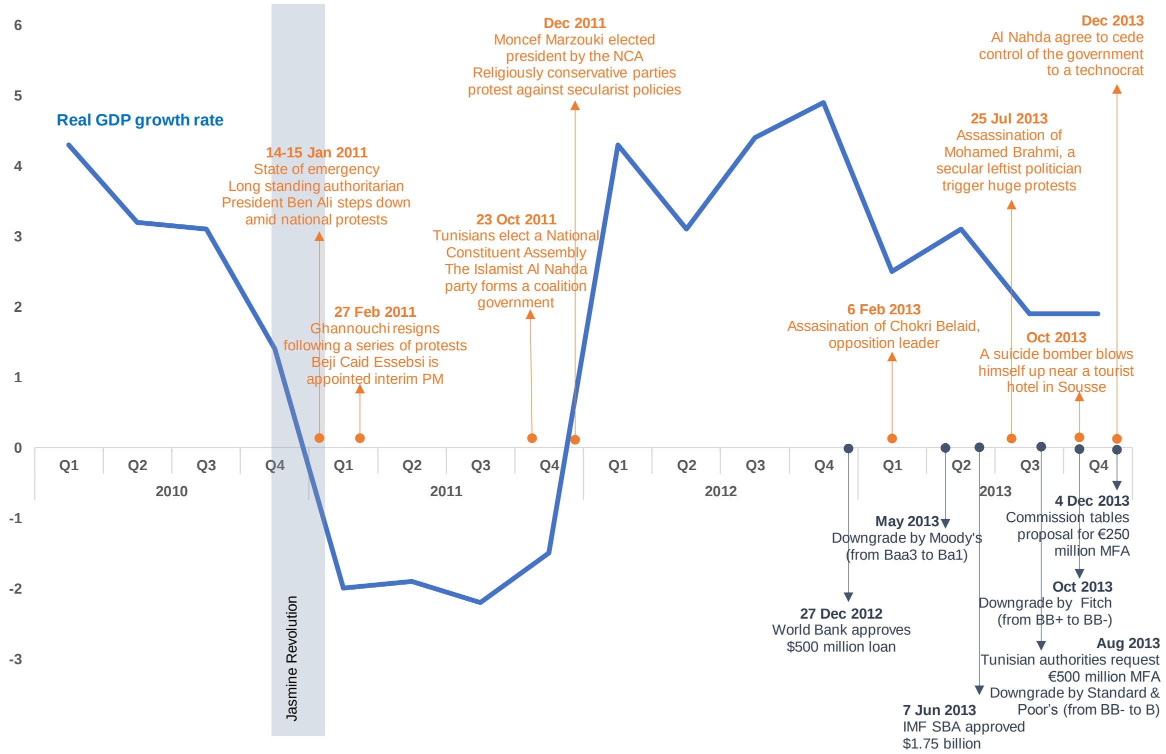
[3] Petersson (2011)

[4] Cornell University Library. '*Arab Spring: A Research & Study Guide: Tunisia*.' Available at: http://guides.library.cornell.edu/c.php?g=31688&p=200750

turbulent transition for Tunisia which saw three governments[5] within three months following the departure of President Ben Ali. The first, free democratic legislative elections were eventually held on 23 October 2011 to determine the composition of the 217-member Constituent Assembly, a new body with a mandate to appoint an interim cabinet and draft a new Constitution. Ennahdha emerged as the clear victor, winning 90 seats with more than 40 percent of the vote. Ghannouchi later formed an alliance with two secular political parties – Congress for the Republic (CPR) and Democratic Forum for Labour and Liberties (also known as Ettakatol). The alliance was commonly referred to as the "Troika", with at its head, Ettakatol's Ben Jaafar (who was voted Speaker of the Assembly), CPR's Moncef Marzouki (as Interim President), and Ennahda's Hamadi Jebali (as Prime Minister).

The performance of two of the transitional governments under the "Troika" was mired in controversy and led to fierce political crises. These were amplified by the assassination of two political figures – opposition leaders Chokri Belaid and Mohammed Al-Brahmi in February 2013 and July 2013 respectively. By August 2013, tens of thousands of people were protesting in Tunis, hoping for a dissolution of the Constituent Assembly. Eventually, in September 2013, Tunisia's governing alliance agreed to resign and handed power over to an independent caretaker government until after elections. Mehdi Jomaa, Tunisia's then Minister of Industry, was selected to serve as caretaker Prime Minister until presidential and legislative elections that were envisaged by the end of 2014.

Figure 1. Timeline of key political developments leading to the request for MFA



Source: Data on quarterly year on year growth rate sourced from Institute Nationale de la Statistique - INS 2018 (www.ins.nat.tn)

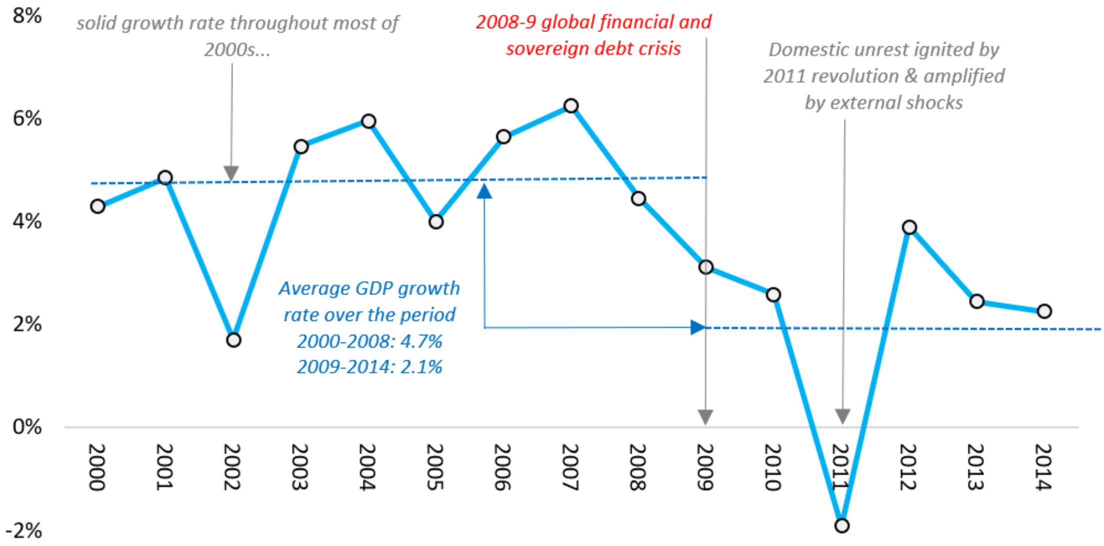
[5] Two governments of Mohamed Ghannouchi and the third was led by Beji Caid Essebsi (the current Head of State) who was in charge of organizing the 2011 legislative elections

2.1.2 Economic context leading to the need for the MFA

2.1.2.1 Subdued GDP growth rate since the 2009 global economic crisis due to a combination of external and internal shocks

Throughout 2000s up to the global economic crisis, Tunisia experienced solid economic growth with the GDP growing at 4.7 per cent on average between 2000 and 2008 (see Figure 2), at par with other peers in the MENA region[6]. The country went relatively well through the global financial crisis avoiding the recession in 2009 and 2010 respectively[7]. It also boasted a real per capita growth in GDP of more than 3 percent a year[8] (in the years leading to the 2011 Revolution), an impressive performance when compared to most Arab countries.

Figure 2. Trajectory of the GDP growth rate in Tunisia between 2000-2014



Source: IMF data

Despite positive economic growth and macroeconomic performance, the country's then authoritarian regime failed to create jobs commensurate with people's abilities, aspirations and competencies, particularly young graduates. This led to the proliferation of marginal and poorly paid jobs in the informal sector (particularly in tourism), rising income inequality and regional disparities between coastal and interior economies of the country[9]. This situation ultimately contributed to the downfall of President Ben Ali's regime in 2011 (Box 2 in section 2.1.1). The ensuing domestic unrest as well as conflict in neighbouring Libya took a heavy toll on the economy with Tunisia's GDP contracting by nearly 2 per cent in 2011.

[6] The average GDP growth rate for the period 2000-2008 for Algeria, Egypt and Morocco was 4.1, 5.0 and 4.8 per cent respectively [based on the IMF data].

[7] IMF. 2010. '*Tunisia weathers crisis well, but unemployment persists.*' Available at: http://www.imf.org/en/News/Articles/2015/09/28/04/53/socar091010a

[8] IMF data, GDP per capita at constant prices

[9] Interior regions depend mainly on the agricultural and mining sectors. They suffer from underemployment and high unemployment rates (30 to 40 per cent comparing to 15 per cent on average at the national level). They also suffer from a misallocation of national resources. There are no local job creation mechanisms and despite some tax and financial incentives to encourage private sector to invest in these regions, investment has remained low due to a lack of skilled labour. On the other hand, coastal regions are mainly based on manufacturing industries and services (especially tourism and ICT). There are developed infrastructures, competitiveness clusters, industrial zones, extended banking services, a good transport network, etc. that make them more attractive to domestic and foreign private investors

While the revolution brought some increased economic and financial uncertainty, increased public spending, gradual rebound in tourism and FDI inflows[10] helped to lift up Tunisia's macroeconomic performance in 2012 when the output rose by almost 4 per cent. The momentum was to some extent sustained in 2013 and 2014, though the growth rates were still below the initial expectations of the IMF and the European Commission.

Yet, the combination of sluggish progress in structural reforms and some exogenous vulnerabilities (Box 3) meant that the country's position was increasingly exposed to some shocks.

Box 3. Main internal and external vulnerabilities of Tunisian economy

Internal vulnerabilities

- Structural disparities between coastal and interior regions;
- Shrinking fiscal buffer with the public debt on the rise since 2010;
- A weak and inefficient banking sector, characterised by a high level of non-performing assets and excessive concentration (the country's three public banks represent 40% of total banking system assets);
- Limited diversification of the productive sector;
- Highly costly and regressive public subsidy system;
- Rigid labour markets and skill mismatches contributing to high unemployment, particularly
- among the youth (averaging 30% in 2010), and low participation rates among women);
- Lack of transparency, corruption, cronyism and complex regulatory procedures;
- Relatively weak national currency (dinar) prone to volatility.

External vulnerabilities

- Political instability in the region (Libya) and its impact on Tunisia's external trade as well as on the domestic market;
- As importing country, Tunisia is disproportionally affected by the increase of oil prices in the international market;
- High economic dependence on the EU. Tunisia conducts the largest share of its trade with the EU. In 2012, the EU was the source of 59.3% of Tunisia's imports and the destination of 68.1% of its exports. Tunisia has also a high dependence on the EU in terms of FDI and other financial flows, remittances and tourism inflows.

2.1.2.2 Rampant inflation

World food prices increased substantially in 2007-08 due to adverse weather conditions, notably droughts in many grain-producing countries. In addition, rising oil prices led to escalations in the cost of fertilisers and food transportation which further fuelled inflation. To mitigate inflationary pressures, the Central Bank of Tunisia (CBT) tightened monetary policy which led to a reduction in inflation by about one percentage point by 2010. However, following the 2011 Revolution, inflation started to increase again. An inflow of refugees from conflict-torn Libya and the depreciation of the Tunisian dinar against the dollar between mid-2011 and mid-2012 led to a subsequent escalation in prices, including fuel and food prices. This price hike persisted into the following years with inflation jumping to circa 5 and 6 per cent in 2012 and 2013 respectively.

2.1.2.3 Challenging labour market conditions

Historically, extensive state intervention that fostered the development of an export-oriented economy prior to the crisis shifted the focus on the low-value added industries

[10] By 34 and 28 per cent y-o-y respectively [based on IMF, February 2013. Country Report]

that has been intensive in unskilled labour. Moreover, over the years, private-sector growth and the creation of high-value added jobs were constrained by burdensome regulation, inappropriate supervision or rent-seeking and anti-competitive behaviour. The loss of jobs caused by the financial crisis that originated in the US, amplified further by the Arab Spring, was only partly offset by some public sector hiring after 2011. Nonetheless, high unemployment rates persisted, notably among younger cohorts (e.g. recent graduates). Unemployment woes for Tunisia only worsened in the years leading up to the MFA. As such, by 2014, around one third of the youth population was categorised as Not in Employment, Education or Training (NEET).

2.1.2.4 Persistently high twin deficits

Fiscal / budget deficit

The period 2000-2008 was characterised by fairly prudent fiscal policies (a contained public wage bill with an average growth rate of 7.8 per cent over the period 2000-2008)[47]. In the wake of the global financial crisis, the Tunisian government resorted to various fiscal policy measures with the aim of reinvigorating the economy. These comprised, inter alia, substantial increases in public sector wages (on average by 8.5 per cent between 2008 and 2010) and subsidies on food and energy. Such measures entailed a heavy fiscal burden and, by 2009, the budget deficit had reached 3.8 per cent of GDP compared to 1.8 per cent a year earlier. Tunisia's public finances deteriorated further following the 2011 Revolution and, by 2012, the fiscal deficit had increased to nearly 6 per cent of GDP. Faced with economic stagnation and rising unemployment, the transition government in Tunisia sought to bring about growth and rapid economic recovery, notably through further expansionary fiscal measures. Although counter-cyclical fiscal policies seemed in some instances justified, they contributed to a growing fiscal imbalance with budget deficit widening further to almost 7 per cent of GDP in 2013.

Current account deficit

Akin to many open developing economies with limited resource wealth, Tunisia's current account has been consistently in deficit. Over the period 2000-2010, the current account deficit (CAD) averaged to -3 per cent annually and trade balances followed a very similar trajectory.

The Tunisian uprising in January 2011 caused further, more severe disruptions to industrial production and services while investor sentiment weakened. In addition, the external environment worsened with the crisis in the Eurozone. The conflict in neighbouring Libya also prompted the loss of remittance income, owing to the return of a large number of migrant workers. Buoying imports (especially energy and capital goods) and declining oil and phosphate exports in 2013 and 2014 worsened the trade balance and added further strains. As a result, the CAD stood at almost 9 per cent on average between 2012 and 2014.

2.1.2.5 Growing levels of public debt

Tunisia's overall public indebtedness fell steadily over the period 2000-10. Prudent debt management and sustained growth reduced public debt from 52 percent of GDP in 2005 to 40 percent in 2010, of which almost 25 percent represented foreign debt. This trend was however, reversed following the 2011 Jasmine Revolution as expansionary fiscal policies coupled with a decline in economic activity contributed to an increase in public debt to 43 per cent of GDP in 2011. Favourable growth dynamics kept the debt-to-GDP ratio relatively constant at approximately 47 per cent in 2012 and 2013. As post-revolution governments increasingly struggled to contain budget deficits (stemming from weak growth, reduced taxation revenue, increased public-sector wage bills and preservation of price subsidies), they were compelled to borrow heavily in 2014 and 2015 and consequently, public debt rose to 55 per cent of the GDP in 2015.

Figure 3. Public debt and deficit, in % of GDP

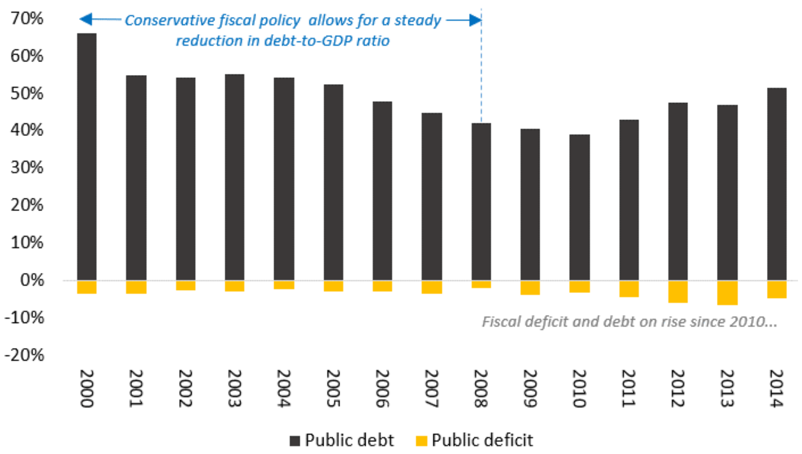


Figure 5. Unemployment rate, in %

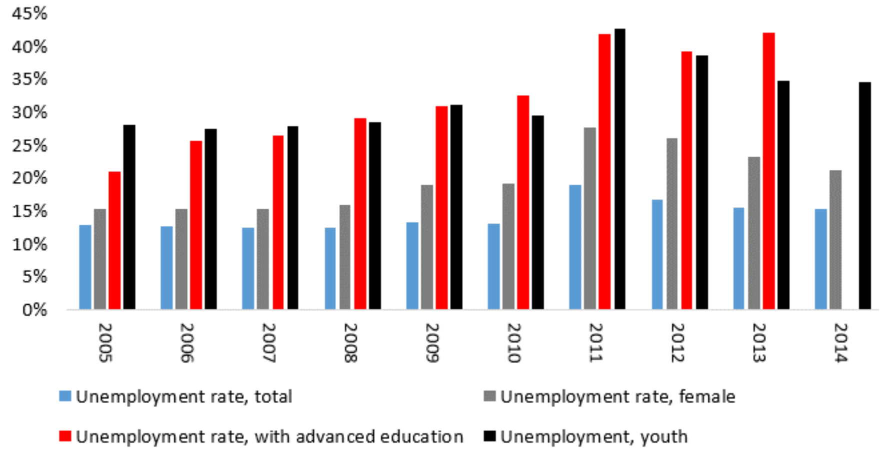


Figure 4. Inflation, in %

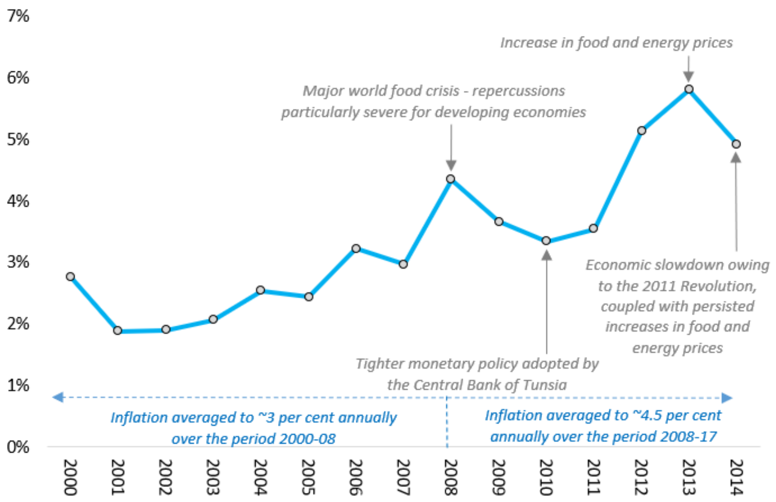
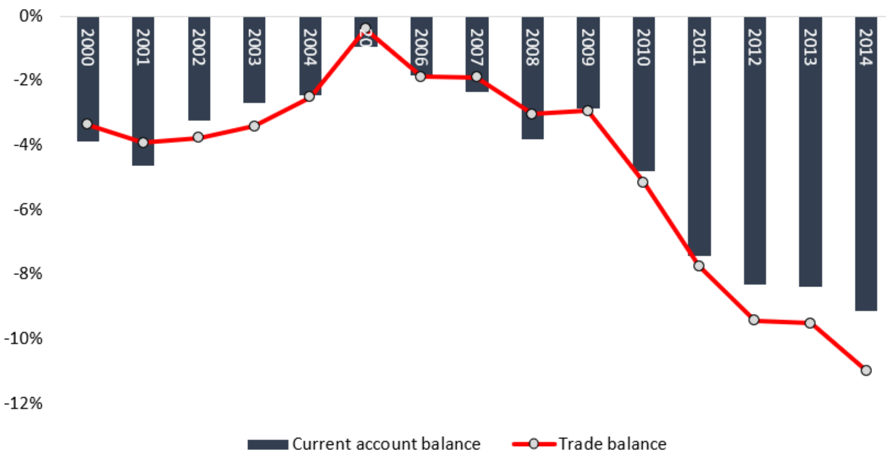


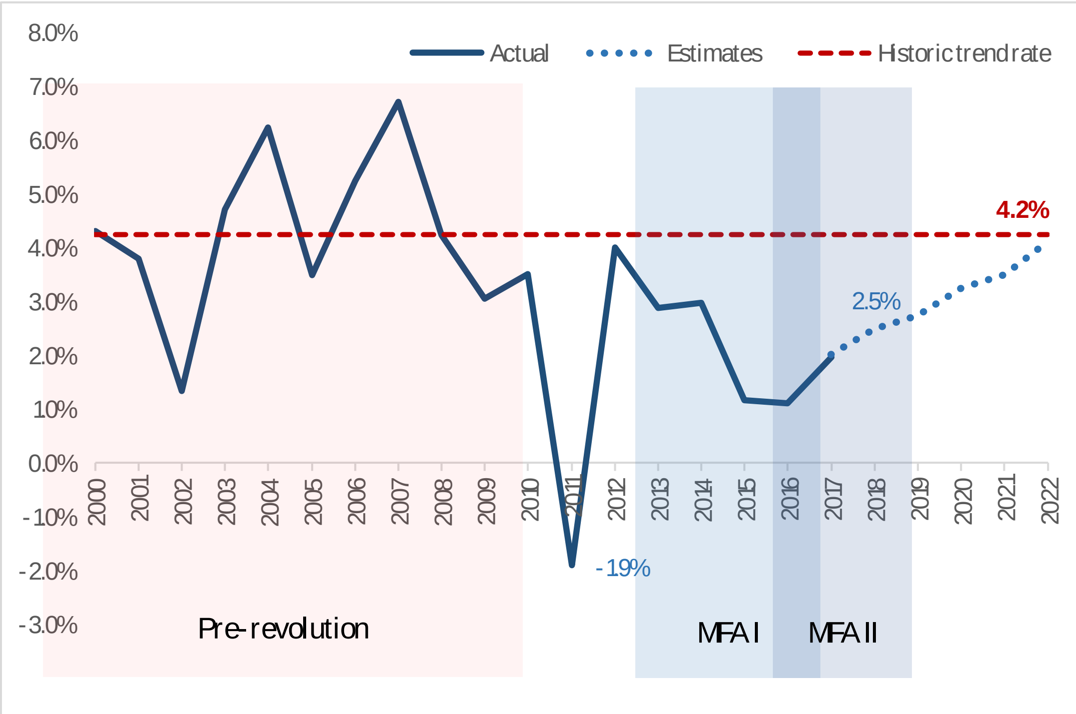
Figure 6. Current account deficit, in % of GDP



2.2 Most recent economic developments and outlook

Tunisia's economy continued to grow at a steady pace in 2018. Real GDP growth rate is estimated to have increased to 2.5 percent in 2018 (up from 2 per cent in 2017), on the back of the strong performance of agriculture (8.7 percent) and services (3.2 percent), particularly tourism (see Figure 7). Growth is projected to edge closer to the historic trend rate of 4.2 percent in the coming years, supported by a strong recovery in mining, manufacturing and non-manufacturing industries, and construction. On the demand side, increasing investment (both, public and private) and exports are projected to be the primary drivers of growth[11].

Figure 7. Tunisia - GDP growth rate



Source: International Monetary Fund, World Economic Outlook Database, April 2019

Historic trend rate based on real GDP growth rate during 2000 and 2010.

Tunisia's fiscal deficit improved in 2018, for the first time since 2014. A combination of strong fiscal discipline (to offset the impact of the oil price shock) and improved tax collection contributed to reducing the overall budget deficit from 6.5 percent of GDP in 2017 to 4.9 percent of GDP in 2018[12]. Notwithstanding the containment of the fiscal deficit, public debt exceeded 70 percent of GDP in 2018 mainly on the back of the depreciation of the dinar and budgetary financing needs in line with the 2018 Budget Law. The dinar depreciated 19 per cent against the US dollar and the euro in 2018, stressing foreign exchange reserves. Moreover, inflation rose sharply in 2018 to an estimated 7.4 per cent due to exchange rate passthrough[13].

[11] IMF (2018) Tunisia : Fourth Review Under the Extended Fund Facility Arrangement and Request for Modification of Performance Criteria-Press Release; Staff Report; and Statement by the Executive Director for Tunisia, October 2018.

[12] Aawsat (2019) Tunisia Looks Forward to Reduce Budget Deficit to 2% in 2022, Sunday, 17 March, 2019 - 09:30. Available online: https://aawsat.com/english/home/article/1637861/tunisia-looks-forward-reduce-budget-deficit-2-2022

[13] IMF (2018) Op cit

Tunisia's current account deficit widened further in 2018 to hit a record high of 11.2 percent of GDP, as compared to 10.2 percent in 2017. The main cause was a steep rise in Tunisia's import bill, driven by the soaring international prices of raw materials and energy, combined with the depreciation of the dinar[14].

Although Tunisia's twin deficits are projected to improve in 2019 and 2020, improvement is expected to be slow because of the high public sector wage bill[15] as well as the structure of the trade deficit linked to import demand. According to the IMF: "*Sizeable imbalances continue to hamper Tunisia's growth and job potential. Growth remains too dependent on consumption, while investment and exports remain insufficiently dynamic. And Tunisia's large and growing external and public debts give rise to large financing needs and represent a strong burden for future generations. Finally, despite some decline, inflation still exceeds 7 percent, threatening the purchasing power especially of the vulnerable in society*."[16]

Tunisia's growth prospects remain plagued by elevated political and economic uncertainty and structural bottlenecks. Socio-political tensions in the run-up to the 2019 presidential and parliamentary elections, and security threats remain the most important domestic risks. The external environment has also become more challenging. High oil prices, rising trade tensions, tight global financial conditions, and contagion from adverse market sentiment vis-à-vis other emerging market countries may put fiscal and external adjustment targets under pressure.

In the medium term, the main challenge will be to reduce unemployment and regional disparities. Some 15.4 per cent of the working-age population is unemployed, including 31 per cent of college graduates. Furthermore, there continue to be large disparities between coastal regions, where most investment and jobs are concentrated, and interior regions.

There is also an urgent need to improve the composition and efficiency of public sector spending. Although public spending has increased considerably since 2011, the fiscal framework, which relies on borrowing to finance current expenditures instead of capital expenditures, remains largely unchanged. The public debt, the majority of which is external (70 per cent), increased by 71 per cent between 2010 and 2018, raising Tunisia's external vulnerability.

On the positive side, Tunisia has several strengths that can be exploited such as its geographic proximity to Europe, agricultural and agrofood potential, substantial phosphate deposits as well as gas deposits for domestic consumption. The improving security situation is reopening possibilities for new investment in tourism. Finally, Tunisia has a diversified industrial base (aeronautics, chemical industry, and textiles), but it would need to be upgraded to play a decisive role in the structural transformation of the economy.

[14] African Manager (2019) Tunisia: current account deficit reaches record 11.2% of GDP in 2018, February 2019. Available online: https://africanmanager.com/site_eng/tunisia-current-account-deficit-reaches-record-11-2-of-gdp-in-2018/

[15] The public sector wage bill continues to weigh heavily on public finances, accounting for 2.5 times public investment and 14% of GDP in the 2018 Finance Law.

[16] Statement made by Mr Björn Rother, IMF mission chief, at the end of the Fifth Review (27 March to 9 April 2019) of the IMF's Extended Fund Facility (EFF) arrangement

3 Design and implementation of the MFA

This section describes the main features of the MFA operation in Tunisia (together with the underlying theory of change), including the timeline of its implementation, accompanying structural reforms and how it fits in within the broader package of EU support to Tunisia post 2011.

3.1 Key features of the operation

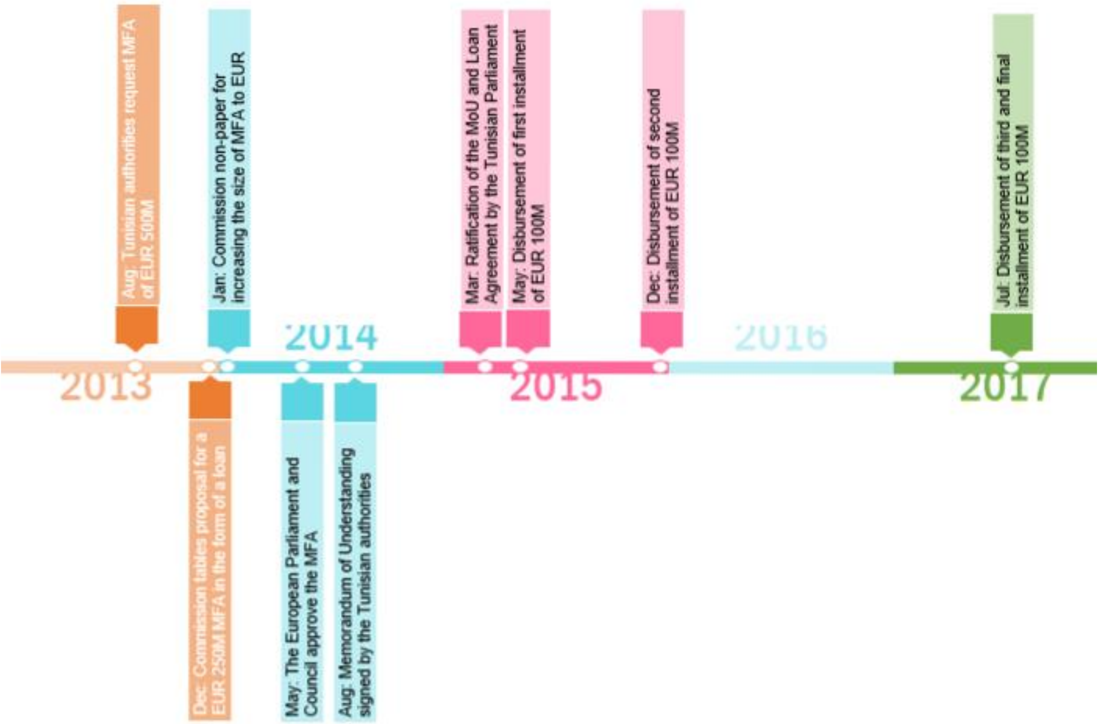
The MFA operation that is the subject of this evaluation was requested by Tunisian authorities in August 2013 in the context of ongoing social unrest, deepening political crisis following the 2011 revolution, persistently large external and fiscal imbalances and increasing external financing challenges.
Following the Commission's proposal for the MFA in December 2013 and the approval by the EP and the Council that took place in May 2014, the Loan Agreement and the MoU were signed between July and September 2014, while the ratification by the Tunisian parliament took place in March 2015.
The MFA operation consisted of a loan of EUR 300 million, the figure that differed from the amount initially requested by the Tunisian authorities and the one initially estimated based on the residual financing needs[17]. The MFA operation was eventually disbursed in full, in three instalments, over the period May 2015 - July 2017:

- **First instalment** of EUR 100 million loan, disbursed in May 2015;
- **Second instalment** of EUR 100 million loan, disbursed in December 2015; and,
- **Third instalment** of EUR 100 million loan, disbursed in July 2017.

Figure 8 summarises the timeline of the operation.

[17] The Tunisian authorities had initially requested for an amount of EUR 500 million, including a EUR 50 million grant component. Following the EU ex-ante evaluation of the MFA to Tunisia that was finalised in November 2013, the European Commission proposed[17] EUR 250 million of MFA in the form of the loan while there was no grant component envisaged[17]. Following requests from some Member States[17], the size of the operation was eventually increased to EUR 300 million. This increase was justified on the basis of political considerations (i.e. to send a stronger signal of the EU's support to Tunisia) and in light of the country's continuing macroeconomic fragility and financing needs

Figure 8. Timeline of implementation of the MFA



Source: ICF

MFA loans were provided on highly favourable terms, given the prevailing market conditions at the time. Maturity and interest rates differed for each tranche but generally varied between the coupon of 0.49 per cent and the maturity of 12 years for the first instalment, and the coupon of 1.25 per cent and the maturity of 15 years for the last instalment[18]. Bullet capital repayment at the last year of maturity was envisaged for all three instalments. No grace period (related to interest rates) was applied.

The MFA monies were deposited each time in the account of the Central Bank but with the exception of the third tranche[19], they were withdrawn by the Treasury within the first month, suggesting current public expenditures as their final destination (rather than reserve accumulation).

Overall, the time that elapsed from the Commission's proposal for the MFA up to the first disbursement was 17 months. While this is shorter than the average of 22 months for the sixteen most recent MFA operations deployed since 2006, the initial intention was to disburse the funds in 2014 and 2015[20]. The European Court of Auditors[21] pointed to '*slow implementation as a major shortcoming'* of the operation. The cause of the delay, however, was entirely beyond the Commission's control[22].

The MFA loan was provided together with the set of policy conditionality (see Section 3.2). The MFA assistance was also conditioned on the satisfactory progress of the IMF

[18] Information provided by the DG ECFIN

[19] Remained on the Central Bank account for 5 months given some reduced needs of the Ministry of Finance for foreign currency funding in light of the sizable debt issuance in 2017

[20] European Commission, 2013. Proposal for MFA to the Republic of Tunisia for 2014-2015.

[21] European Court of Auditors, 2017. Special Report – EU Assistance to Tunisia. Available at: https://www.eca.europa.eu/en/Pages/DocItem.aspx?did=41012

[22] The MFA requires the approval of the Council and the European Parliament (via ordinary procedure). Subsequent to approval by both institutions, there were also further delays in the ratification of the MoU and Loan Financing Agreement attached to the MFA by the Tunisian Parliament.

assistance package (Annex 2 provides the overview of the IMF support package along with the snapshot of the World Bank, African Development Bank and other key bilateral donors assistance).

The stated objectives of the MFA were: '*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 face the current external and financial vulnerabilities stemming largely from the prolonged political and economic domestic transition.*'[23]. The theory of change presented in Figure 9 illustrates how the MFA financial assistance (EUR 300 million loan) was expected to contribute to these objectives, as well as the role of policy conditionality and dialogue in reducing macroeconomic vulnerabilities (*via* improved economic governance, public finances, more stable financial sector and improved framework for trading with the EU), and cushioning the social impact of the economic adjustment.

Key underlying assumptions for the sequence of changes to materialise are:

- The national government's fiscal and monetary policy response designed in cooperation with the IMF is appropriate. For example, the timing and pace of fiscal expansion/ consolidation is appropriate;
- MFA conditionality is successfully implemented; and
- There is commitment to wider reforms that are needed to address the country's underlying macroeconomic vulnerabilities.

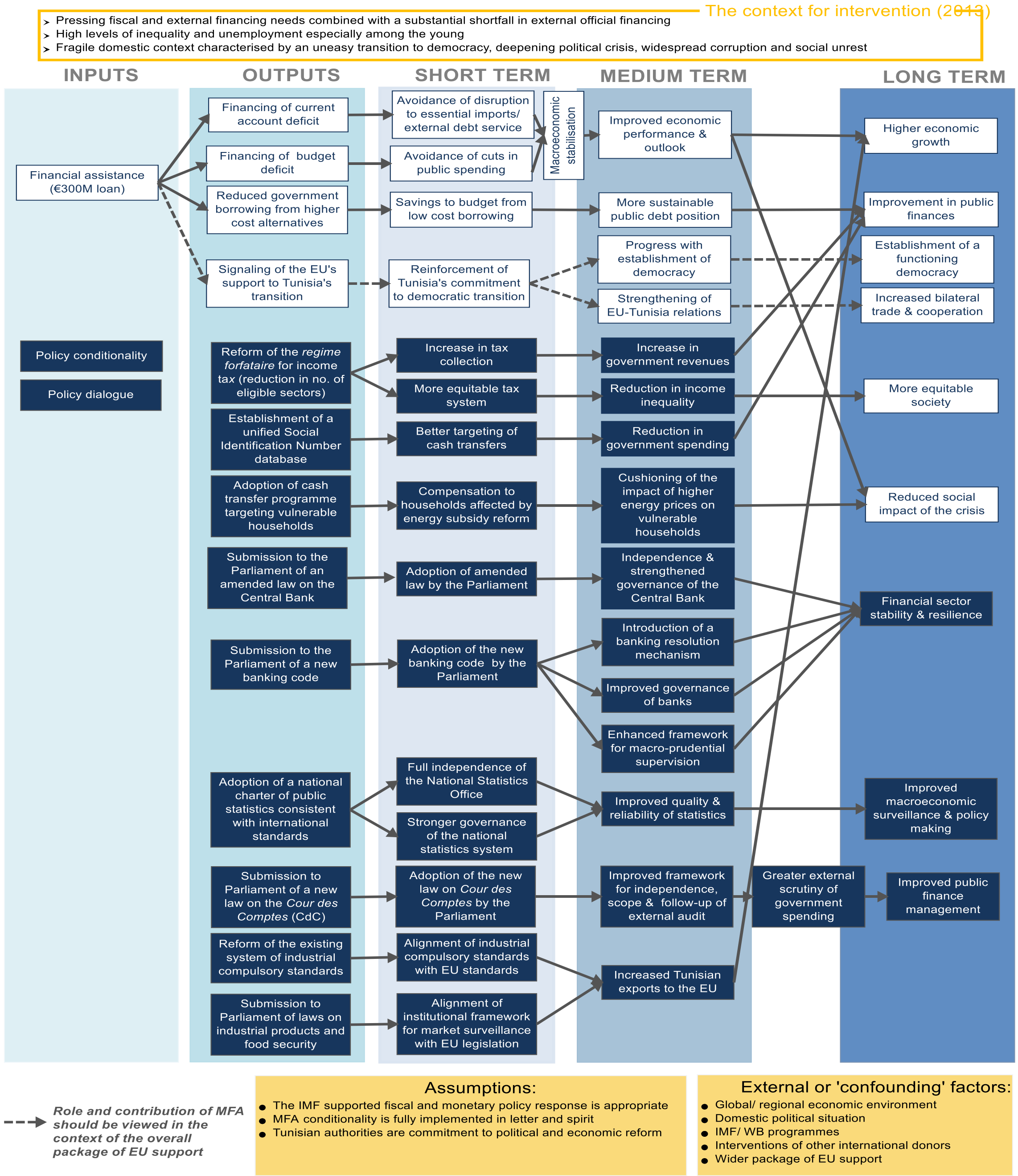
Finally, the ToC takes account of the role of other factors that might influence the direction and scale of effects, most notably:

- Global / regional political and economic environment, particularly the political developments in countries like Libya and the economic situation of the Eurozone;
- The domestic political situation and the impact that this has on investor/ private sector confidence and on ownership and commitment to reforms; and
- The role of other actors notably the IMF, WB and bilateral donors in promoting reforms and providing financial assistance.

Importantly, in order to help Tunisia to deal with the economic fallout of the 2015 terrorist attack, the second MFA operation (MFA II) in the amount of EUR 500 million and consisting 15 specific conditions (Table 1) entered into force in August 2017. While the MFA II operation is out of the scope of this evaluation, it still remains a relevant contextual factor.

[23] European Commission, August 2014. Memorandum of Understanding for the MFA I.

Figure 9. Theory of change for the MFA operation 2014-2017



Source: ICF

3.2 MFA conditionality

In terms of the conditions which needed to be met to trigger disbursements, these also included pre-conditions related to the need for the beneficiary country to have effective democratic mechanisms in place and to respect the rule of law and human rights (article 2 of 2014 Decision). The fulfilment of this condition is monitored in cooperation with EEAS throughout the lifecycle of the MFA operation. The MoU[24] also specified that the quantitative performance criteria are those attached to the 2013 IMF SBA program.

As far as policy conditionality was concerned, the MFA operation focused on the following structural reform priorities: (i) taxation, (ii) social safety net, (iii) financial sector, (iv) public finance management (PFM), (v) statistics and (vi) trade policy.

As for every MFA operation, policy conditions were not linked to the first instalment, which is only conditional on acceptance of the IMF programme.

Design of the conditionality, apart from discussions with Tunisian authorities, involved internal (the EU Delegation in Tunis, the European External Action Service, DG Trade, DG GROW, and DG NEAR) as well as external coordination, primarily with the IMF and World Bank, and to some extent with the African Development Bank, EBRD and the EIB. In addition, the Operational Assessment of the Financial Circuits and Procedures of Tunisia also fed into the design of conditions in the PFM sector, which was commissioned by the European Commission and delivered by external consultants in order to ensure that the public finance management (PFM) system provided sufficient safeguards in view of a forthcoming MFA programme.

Table 1 outlines the detailed conditionality attached to both, the MFA I and MFA II operations. The MFA II and its conditionality, although out of the scope of this evaluation, is still presented in the table to show some degree of continuity between both operations in terms of reform package.

[24] European Commission, 2014. Memorandum of Understanding between the European Union as lender and the Republic of Tunisia as borrower. Available at: http://ec.europa.eu/economy_finance/eu_borrower/mou/tunisia_mfa_mou_signed_en.pdf

Table 1. Overview of the MFA to Tunisia

	MFA I[25]		**MFA II**[26]	
Tax reform	Action 1 Adoption of a decree reducing the number of economic activities eligible for the regime forfataire with a view to increasing the tax collection and make the system more equitable		Action 3 With a view to increasing the tax collection and make the system more equitable, steps towards a reform of the VAT to be included in the Budget Law *(Loi de Finances)* for 2017, including (i) provisions to reduce the number of goods and services subject to the intermediate VAT tax rate of 12% and (ii) the number of exemptions to the VAT	Action 10 Further steps towards a reform of the VAT to be included in the Budget Law *(Loi de Finances)* for 2018, including (i) the suppression of the intermediate VAT tax rate of 12% and (ii) an additional substantial reduction of the number of exemptions to the VAT.
Social safety net	Action 2 Launch, and progress with, a special survey of the households currently benefitting from the Programme national d'aide aux familles nécessiteuses (PNAFN) and reduced price health programmes (Cartes de soins gratuites et à tarifs réduites) – with a view to progress towards establishing a unified database and targeting system based on a single Social Identification	Action 6 (i) setting up an interactive and dynamic database on vulnerable and low-income households based on a single Social Identification Number; (ii) adoption or reinforcement of cash transfer support programme to compensate vulnerable households affected by the reform of the energy price subsidies.	Action 4 Submission by the *Centre de Recherches et d'Etudes Sociales* (CRES) to the Government of a Strategic Orientation Note on the reform of the main social transfer programmes (*Programme national d' aide aux familles necessiteuses* - PNAFN- and *Cartes de soins gratuites et a tarifs reduites),* with an aim to propose specific measures, including a scoring system, to improve the targeting of	Action 11 Completion of the survey of the approximately 900.000 households currently benefitting from the main social transfer programmes (*PNAFN* and *Cartes de soins)* and publication of the results. Action 12 Adoption of an Action Plan for the

[25] European Commission, 2014. Memorandum of Understanding between the European Union as lender and the Republic of Tunisia as borrower. Available at: http://ec.europa.eu/economy_finance/eu_borrower/mou/tunisia_mfa_mou_signed_en.pdf

[26] 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

	MFA I[25]		**MFA II**[26]	
	Number		the programme beneficiaries. The note will draw on the results of its evaluation and the survey of some 6,000 households. Action 5 Submission to the Parliament of a new law that will replace the current legislative framework governing the social transfer programs *(PNAFN* and *Cartes de soins),* currently composed of several ad-hoc regulations.	implementation of reforms aimed at improving the effectiveness and sustainability of the country's social protection system (including, inter alia, the main cash transfer programs and the pension and health care systems).
Financial sector	Action 3 Submission to the Parliament of the Law aiming at strengthening the governance of the Central Bank of Tunisia (reinforcement of the bank's independence, accountability and transparency)	Action 7 Submission to Parliament of a new banking law		Action 14 Adoption of the necessary decrees needed to implement the creation of a deposit guarantee scheme for banks; in line with the new Banking Law
Statistics	Action 4 Adoption of a national chart of public statistics (consistent with the UN fundamental principles of statistics) by the National Institute of Statistics and other public entities			
Public Financial Manageme		Action 5 Submission to Parliament of a	Action 1 Adoption of a comprehensive	Action 9 Provision of unrestricted access to

	MFA I[25]		**MFA II**[26]	
nt (and Civil Service Reform)		new law on the Cour des Comptes (CdC) with a view to strengthening the external audit of public accounts	strategy for the reform of the civil service. Action 2 Adoption by the Parliament of the new law on the *Cour des Comptes (CdC)*	the TUNEPS system of e-procurement for all bidders
Trade policy		Action 8 Publication of the decrees implementing the new technical regulations converting the existing system of industrial compulsory standards (normes homologuées) into a system aligned with that of the EU, for the two priority sectors that will be covered by the ACAA, namely, building materials and electrical and electronic products. Action 9 Submission to the Parliament of legislation to align the institutional setting for market surveillance with the EU's New Legislative Framework, including law on security of industrial products and law on food security		

	MFA I[25]	**MFA II**[26]	
Labour Market		Action 6 Implementation of the existing active labour market policy programme ("FORSATĪ programme") including (i) provisison of a full Personal Employment Project to at least 50% of the 85.000 employment seekers registered under the first edition of the programme; and ii) setting aside of the necessary financial backing for a new edition of the programme in the 2017 Budget Law. Action 7 Launch of a new active labour market policy programme *("Contrat Dignite" meant for job* seekers who have been unemployed for over two years.*),* with sufficient backing under the 2017 Budget Law	
Investment climate		Action 8 Adoption by the Government of the three main by-laws for the implementation of the Investment Law.	Action 13 Adoption of a decree regulating access by investors, including foreign investors, to the different economic sectors; in line with Investment Law.

	MFA I[25]	MFA II[26]
Tourism sector		Action 15 Conclusion of a Euro-Mediterranean. Aviation Agreement.

4 Methodological approach

4.1 Introduction

This section presents our methodological approach to the evaluation carried out in line with the requirements set out in the Better Regulation guidelines[27]. The first step was the development of an evaluation framework[28] (presented in full in Annex 5) which underpinned the whole work and methods of approach carried out over the lifecycle of the evaluation, followed by the implementation of a step-by-step methodology, comprising data collection and analysis phases. Box 4 in turn outlines all the evaluation questions.

The section is structured as follows: it firstly presents the evaluation design and then turns to a succinct description of the main tasks to finish with an outline of the limitations and caveats.

Box 4. List of evaluation questions

Relevance

Question 1: *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

Question 2: *To what extent have the objectives of the MFA operation been achieved?*

Efficiency

Question 3*: Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country?*

Question 4: *In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives?*

EU Added Value

Question 5: *What was the rationale for an intervention at EU level and to what extent did the MFA operation add value compared to other interventions by other international donors?*

Coherence

Question 6: *To what extent was the MFA operation in line with key principles, objectives and measures taken in other EU external action towards Tunisia in the context of the European Neighborhood policy?*

4.2 Evaluation design

The evaluation was designed to respond to a specific set of evaluation criteria and questions, as articulated in the Terms of Reference. An evaluation matrix was developed to guide the choice and design of specific research methods, as well as to provide a framework for subsequent data analysis and interpretation. More specifically, it specifies:

[27] European Commission, May 2015. Better Regulation Guidelines. Available at: http://ec.europa.eu/smart-regulation/guidelines/toc_guide_en.htm

[28] 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 , p.3)

- The questions addressed by the evaluation;
- The evidence required to answer each evaluation question;
- The data sources and methods used for compiling the required evidence; and
- The judgement criteria on which the evaluative conclusions have been based.

The evaluation framework designed for this evaluation is presented in Annex 5. It reflects the following key elements of our approach:

- *A theory based approach* – this involved making explicit, the underlying theory of change for the MFA operation in Tunisia (see Figure 9), and subsequently testing this theory to draw conclusions about whether and how the MFA contributed to observed results. The theory of change was developed on the basis of desk research and subsequently validated through key informant interviews.
- *The use of mixed methods* – our approach combines 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* - multiple lines of inquiry and evidence are being used for answering each evaluation question.

4.3 Methods and data sources

The table below provides a high-level overview of the data collection methods and analytical techniques that are being used to address each evaluation criteria. A description of how each of these methods are applied to this evaluation is provided in the sub-sections that follow.

Table 2. Overview of the methods and techniques used for the evaluation

	Relevance	Effectiveness	Efficiency	Coherence	EU added value
Documentary review	●●●	●●	●●●	●●●	●●●
Macroeconomic data analysis	●●●	●●●	●●●		
Key informant / stakeholder interviews	●●●	●●●	●●●	●●●	●●●
Focus group discussion	●	●			●●
Delphi survey	●	●●			●
Case studies (structural reforms)	●●	●●	●●	●	●●
Qualitative counterfactual analysis		●●●			
Social impact analysis		●●●			
Debt sustainability analysis		●●●			

●●● *a very important method for addressing the evaluation criterion*

●● *an important method for addressing the evaluation criterion*

● *a complementary method*

4.3.1 Documentary review

Table 3 below provides an overview of the sources and types of documentary evidence assembled and reviewed. It also provides an assessment of the usefulness of each of the different types of documentary evidence for the evaluation. A full list of references is available in Annex 4.

Table 3. Documentary sources of evidence for the evaluation

Source of documentation	Types of documentation	Usefulness for the evaluation
European Commission, DG ECFIN	- Ex-ante assessment of the MFA - Operational Assessment - Commission proposal and MFA decision - MoU (for MFA I and II) - Loan Agreements - DG ECFIN Mission Reports - Compliance statements - MFA annual reports	●●●
European Commission, other DGs and the EU Delegation in Tunis	- Partnership and Cooperation Agreement - Multi-annual Indicative Programme 2014 - 2020 Tunisia - The EU Tunisia Neighbourhood Agreement - Annual Action Programmes - Selected EU Delegation publications	●●
EIB	- EIB data on lending in Tunisia	●●
IMF	- Letter of Intent - MoU - Article IV staff reports - IMF reviews - IMF Fiscal Monitor	●●●
World Bank	- WB DPO implementation completion	●●

	and results' reports	
Other	- EIU Country Report - Sovereign ratings reports (Moody's) - Academic and grey literature on political and economic developments and implementation of structural reforms in Tunisia - Authorities' strategies i.e. Five-Year Development Plan; - Independent evaluations produced by Tunisian stakeholders (i.e. CRES and ASCETU research) - Reports and data produced by other bilateral/ multilateral donors and IFIs including AfDB, EIB, EBRD, USAID and GIZ on their activities in Tunisia - Selected indexes (i.e. WB Doing Business, Open Budget Index, EIU Democracy Index) - Selected videos/podcasts on the reform progress in Tunisia (i.e. WB – Tunisia's Unfinished Revolution) - Selected financial and economic press (i.e. Financial Times, the Economist, Le Monde Diplomatique, Al Jazeera)	●●●

●●● *very useful* ●● *somewhat useful*

4.3.2 Macroeconomic data analysis

Data on key macroeconomic indicators (Table 4) was compiled from various sources to analyse trends and patterns. Specifically, the evaluation examined how key macroeconomic indicators evolved over time and specifically, the direction and magnitude of the changes observed over the period of interest (before, during and after the MFA implementation) as well as any deviations from the initial projections made by the IMF, and the underlying reasons for these.

Table 4. Key Macroeconomic Indicators and Data Sources

Component	Data Type	Description	Key data source(s)
The Real Economy	National accounts	Indicators of macroeconomic Performance	Ministry of Finance, IMF
Balance of Payments	Balance of payments	Indicators of external sustainability and trade	IMF

Component	Data Type	Description	Key data source(s)
	statistics	conditions	
The Government	Government finance statistics	Indicators of the government's fiscal sustainability (expenditure, budget balance, debt, tax revenue etc. data)	Ministry of Finance, IMF and World Bank
The Financial System	Monetary statistics	Banking sector, financing condition, interest rates, foreign exchange data etc.	Ministry of Finance, National Bank of Tunisia and IMF
The Labour Market	Other economic statistics	Indicators of socio-economic performance	Ministry of Finance, IMF and World Bank

4.3.3 Interviews with key informants/ stakeholders

A series of 31 in-depth interviews were conducted with all key informants and stakeholders (most face-to-face with the minority over the few instances phone). The table below indicates the number and types of stakeholders interviewed in course of the interview program. The detailed list of all interview is presented in Annex 3.

Separate to that, non-governmental actors such as business representatives and civil society organisations were also consulted during the focus group (see also 4.3.5).

The interviews were generally of high quality with the interviewees being well informed, well prepared and candid in expressing their perspectives. Furthermore, on number of occasions, the study team followed up with additional questions (typically via an email) to clarify and/or expand on selected issues discussed during an interview.

Table 5. Overview of the interviews conducted

Stakeholder Group	No of interviews	Roles and responsibilities of interviewees
European Commission	6	DG ECFIN (2) – those responsible for design and monitoring of MFA operation in Tunisia DG NEAR (2) – those responsible for budget support operations in the region DG GROW (2) – trade related conditionality
EU Delegation in Tunisia	3	Head of Section Trade and Macro-Economic Policy Expert Former Deputy Head of Unit Maghreb
EEAS	1	Country Desk

EIB	1	Head of Representation in Tunisia
IMF	5	Current IMF ResRep Former IMF ResRep Former and current Chief Missions and their team IMF Fiscal Affairs Department
World Bank	2	Country Manager in Tunisia Economist based in Tunisia Expert in TA for SSN reforms
Tunisian Authorities	9	Officials from the: Ministry of Social Affairs Ministry of Industry and SMEs Ministry of Finance Ministry of Development, Investment and International Cooperation (2) Central Bank Representatives from the Tunisian Embassy in Brussels Cour de Comptes National Institute of Statistics
Other	4	Tunisian independent expert in socio-economic affairs Centre de Recherches et d'Etudes Social AfricaInvest Tax expert from 'Tunisia First' - USAID assistance program
Total	**31**	

4.3.4 Case studies

Two in-depth case studies on MFA promoted reforms in the following areas were developed: (1) Social Safety Net reforms and (2) tax policy (and more specifically "regime forfaitaire[29]").

The case studies addressed the following aspects:

- The rationale behind the selection of specific MFA conditions in the above areas as well as the relevance and added value of the MFA conditionality;
- The significance of MFA conditionality in the context of the overall need for reform in a particular thematic area/ sector;

[29] the simplified income tax declaration system

- 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.);
- The role and contribution of the MFA in promoting reforms including identification of the key 'causal links'
- Short, mid and long-term benefits of the MFA conditions.

In addition, the case studies attempted also to draw on some lessons learnt from the design and implementation of similar reforms in the past by two donors, the World Bank and the IMF.

The case studies were mainly based on the desk research, stakeholder interviews and interactions of the local economic experts.

4.3.5 Focus Group with the civil society

Half a day focus group discussion with locally-based civil society and business representatives was organised during the second mission to Tunisia (March 28th, 2019) to complement as well as cross-check information collected from other sources such as desk research and key informant interviews. Representatives of the organisations presented in Table 6 took part in the focus group discussion.

Table 6. Focus group participants

No	Organisation
1	Solidar Tunisia
2	University of Tunis
3	Council of Economic Analysis
4	Conféderation des Entreprises Citoyennes de Tunisie (CONECT)
5	Institute Arabe des Chefs d'Entreprises (IACE)
6	International Business and Economic Forum
7	Le Manager Magazin
8	Ecole Supérieure de Commerce in Tunis

The summary note from the focus group is presented in the Annex 8.

4.3.6 Stakeholder workshop

The stakeholder workshop gathering representatives of Tunisian Ministry of Development, Investment and International Cooperation, EU Delegation in Tunis, IMF Representative in Tunis and key DG ECFIN staff was organised in Brussels (with video-conference link to Tunis) on May 21st 2019 to discuss and validate the findings presented in the Draft Final Report.

4.3.7 Internal brainstorming session on counterfactual scenarios

Following the mission in Tunisia, an internal brainstorming session on counterfactual scenarios was organized on February 6th, 2019. Participants included the core ICF and Cambridge Econometrics teams and the local economic experts.

The session allowed the team to narrow down the list of the most plausible counterfactual scenarios with a detailed consideration of underlying evidence and reasoning as well as a discussion of potential areas of uncertainty/ caveats and issues requiring further research or clarification.

4.3.8 Delphi survey

The Delphi survey sought to establish views on the role and contribution of the MFA in achieving macroeconomic stability, easing external financing constraints and alleviating Tunisia's balance of payments and budgetary needs. In particular, participants were asked to elaborate on plausible scenario would MFA I not have been available, and the potential implications. The survey also covered aspects related to the role of the MFA I operation in promoting structural reforms. The structure of the questionnaire was largely driven by the insights gathered during key informant interviews, the review of the macro-economic data and consultations with the local economic experts.

The recruitment to the panel was carried out with the support of the local economic experts and with the advice from DG ECFIN and the EU Delegation in Tunis. We included 82 representatives of the following groups / institutions in the Delphi panel:

- Business representatives and financial / macroeconomic analysts from the private sector (e.g. research departments of commercial banks and credit rating agencies); and
- Researchers from think tanks, experienced commentators of Tunisian economic policies (i.e. specialized press), independent fiscal policy experts, and academic experts.

The research team made a considerable effort to target those respondents who were likely to have prior knowledge of MFA operation based on their experience with the country context and macroeconomic situation. During the first round, 32 respondents provided the valid feedback which resulted in 40 per cent response rate. The first round of survey results yielded fairly consistent views among respondents, thought there was still no consensus on a few aspects including feasibility of the alternative sources of financing had MFA not been provided. The fact that warranted the second round.

Therefore, the second round was conducted among experts who responded to the first survey. Among 32 experts who received the second-round questionnaire, 23 responded resulting in 72 per cent response rate.

Table 7 provides the details of the background of respondents by type of organisation for both rounds were carried out. Annex 9 provides a detailed overview of the first and second round results of the survey.

Table 7. Details of the Delphi Panel that were invited and responded

Type of organisation	**Number of invitees**	**Number of respondents in *1st round***	**Number of respondents in *2nd round***
Academics	16	9	8
Experts (including former government staff or advisors)	10	5	3
Media	2	0	0
Representatives from business and financial sector	32	10	7

Type of organisation	Number of invitees	Number of respondents in *1st round*	Number of respondents in *2nd round*
Research consultancy	13	3	2
Think tanks	7	5	3
Other	2	0	0
Grand total	**82**	**32** (of which 2 partial)	**23** (of which 1 partial)

Source: ICF

4.3.9 Qualitative counterfactual analysis

It is conceptually and methodological challenging to isolate the effect of MFA from other interventions (such as the IMF programme, other EU interventions, support from other donors etc.) and other exogenous factors and/ or unobservable factors. Previous MFA evaluations have relied upon econometric modelling (i.e. estimating unobserved counterfactual outcomes with the help of macroeconomic models and then comparing these hypothetical counterfactual outcomes with observed macroeconomic outcomes). This approach has some important limitations. Firstly, it is almost impossible to construct reliable counterfactual scenarios using econometric techniques or macroeconomic models in a crisis context[30]. Secondly, this approach has yielded little by way of meaningful insights in past MFA evaluations.

In light of these issues, the study team adopted a more qualitative approach to counterfactual analysis in this evaluation. More specifically, it applied the counterfactual reasoning within a qualitative framework (using a theory-based approach) to draw inferences regarding the role and contribution of the MFA in promoting macroeconomic stabilisation and cushioning the social impact of the crisis. Evidence and insights collected from desk research, macro-economic data analysis, interviews, Delphi survey, focus group and experts' opinions were used to deduce what might have happened in the absence of the MFA (Alternative 1) and MFA and IMF assistance programs (Alternative 2).

4.3.10 Debt Sustainability Analysis (DSA)

In line with the ToR requirements, the study team conducted a DSA to evaluate the contribution of the MFA towards sustainability of public debt in the Tunisia. This involved an analysis of key debt-burden indicators and macroeconomic variables which influence the path of a country's debt and its capacity to manage this burden sustainably in the medium term to long term. Debt burden indicators of interest included:

- The present value of public debt to GDP;
- The present value of public debt to fiscal revenue; and
- Public debt service to fiscal revenue.

[30] Macroeconomic variables might not behave during a crisis the way their historical pattern, and thus statistical models, would predict. Moreover, the crisis could have changed the usual relationships between variables. For example, a crisis could have changed consumer and business behaviour in such a way as to make statistical relationships diverge from their historical pattern, making them more risk averse and cautious for example. Other relationships that are normally linear, may change the character (i.e. and become non-linear and more challenging to capture by standard models).

The assessment of the role of the MFA in facilitating sustainability of Tunisia's public debt was based on counterfactual modelling. More specifically, the team analysed the possible trajectories of debt-burden indicators under the following scenarios:

- Baseline scenario depicting observed outcomes i.e. what actually happened;
- An alternative scenario (Alternative 1) depicting what would have happened if there had been no MFA programme;
- A second alternative scenario (Alternative 2) depicting what would have happened if there had been no MFA and no IMF programmes.

By comparing outcomes across the the baseline and two alternatives, it was possible to draw inferences about the MFA's contribution to the sustainability of Tunisia's public debt. A DSA toolkit developed by the IMF and the World Bank that is the benchmark tool for analysing debt sustainability of countries, was used for the purpose.

4.3.11 Social Impact Analysis (SIA)

The purpose of the SIA was to draw inferences about the role and contribution of the MFA operation in cushioning the social impacts of the crisis. This was done by analysing trends in the following social indicators prior to, during and after the MFA operation:

- Wages;
- Poverty;
- Household expenditure;
- Employment;
- Unemployment;
- Education;
- Health.

Counterfactual reasoning (as discussed above) was applied to deduce the extent to which the MFA operation contributed to the observed outcomes.

4.4 Methodological limitations

The Table 8 discusses the limitations that emerged in relation to particular elements of the methodology, the mitigation measures and the judgment on the overall impact of those limitations.

Table 8. Overview of the main methodological limitations

Elements of the methodology	Issue	Mitigation measures	Judgment
Interviews with key informants (1)	**Inability of some stakeholders to recall the details from the past due to the time elapsed since the completion of the MFA** *In general, this issue was less pronounced than in most of the past MFA operations evaluated by the study team. A few stakeholders (EU Delegation, Ministry of the Development, Investment and International Cooperation and the WB) referred to this while caveating their responses to some limited number of questions.*	Cross-verification of material insights with other primary/ secondary data	*Limited*
Interviews with key informants (2)	**Unavailability of a limited number of the key stakeholders for the interviews** *In the limited number of cases (IMF Tunis, Ministry of Finance, Ministry of the Development, Investment and International Cooperation and the EU Delegation), some of the key staff that had been involved in the negotiations and design of the operation has moved on subsequently to other departments/ organisations.*	Cross-verification of material insights with other primary/ secondary data	*Limited*
Interviews with key informants (3)	**Lack of fluency in English of certain stakeholders based in Tunisia** *French was the primary choice of interview language for most of the interviewees in the local government organisations and among civil society representatives.*	The preference for language of a meeting was checked in advance, and when needed, the interpreter was provided. In addition, most of the study team members were fluent in French	*Limited*
Reliability of the data	**Uncertainty around the data on the taxpayers under *régime forfaitaire* provided by the authorities**	Clear caveating of the limitations of the data and cross-verification	*Limited*

	The Ministry of Finance data on the number of taxpayers under régime forfaitaire may include some dormant companies potentially artificially inflating the total number of taxpayers.	with tax experts	
Availability of the data (1)	**Unavailability of some the most recent time series data for Social Impact Analysis** *The data timing made it challenging to discern some trends around the implementation period of MFA operations. Some data series only run up to 2014/2015 (e.g. compensation of employees) and for poverty statistics data is only available every 5 years (latest data-point 2015).*	Clear caveating of the limitations of the data	*Limited*
Availability of the data (2)	**Unavailability of some the data for the Debt Sustainability Analysis** *Some selected data such as nominal exchange rate TND vs USD for the period 2019-2023 or volume of newly issued long term debt needed for the DSA was missing from the key publicly available sources such as the IMF and WB.*	Industry-accepted methods to implement the estimations were used. Clear caveating of the limitations of the data.	*Moderate*
Focus Group (1)	**Limited awareness of the Focus Group's participants about the MFA** *While majority of the participants was aware of the MFA prior to the evaluation, their knowledge regarding some key features of the instrument gauged at the outset of the event turned out to be fairly patchy.*	Cross-verification of insights/ introductory presentation during the Focus Group on the MFA instrument and its key features	*Limited*
Focus Group (2)	**Risk of securing participants for Focus Group** *The Focus Group coincided with the Arab League Summit that took place in Tunis over the same period. This was mentioned by a few invitees as the reason for not being able to join the Focus Group. In most of those cases, the back-up participants were secured.*	Cross-verification of material insights with other primary/ secondary data	*Limited*

Delphi Panel	**Reliability of the judgment provided by Delphi experts** *Although substantial effort was made to ensure the highest relevance and validity of responses (i.e. by very thorough selection of sample), Delphi survey in general may exhibit certain weaknesses. In the context of the MFA, the major risks related to insufficient familiarity of participants with the aspects of the MFA operation and the tendency to stick to own strong views based on own interpretation of historical developments. There has been also more nearly 4 years since the first disbursement under MFA I was made and hence some memory loss was unavoidable.* *Therefore, although 97 per cent of respondents stated that they had been familiar with MFA prior to the survey (to different degree) and there was generally high consensus on most of the aspects, the findings from this exercise should be still considered with certain degree of caution*.	Cross-verification of material insights with other primary/ secondary data	*Limited*
Counterfactual analysis (1)	**Selection of counterfactual scenarios** *Selection of the most plausible counterfactual scenarios is an inherently difficult exercise. To this end, while evidence related to Alternative 1 pointed consistently to limited number of options, there was no consensus on the most plausible events under Alternative 2 and those bear high degree of uncertainty.*	Cross-verification of material insights with other primary/ secondary data	*Moderate*
Counterfactual analysis (2)	**Uncertainty regarding the quantitative impacts of counterfactual scenarios** *Evidence and economic theory provided a basis for the direction of impacts, however, the magnitude of such impacts relies on quantitative assumptions.*	Where quantitative assumptions are made, these are well-documented and caveated.	*Moderate*

Source: ICF & Cambridge Econometrics

5 Relevance of the MFA

Question 1: *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?*

The answer to this question was based on a consideration of the following issues (i) adequacy of the size of the financial assistance relative to the Tunisia's financing needs, (ii) appropriateness of the form of financial assistance, (iii) timing of the operation and (iv) design and focus of conditionality given the country's reform needs, domestic capacity and ownership, the activities of other donors and the inherent characteristics of the MFA instrument itself.

5.1 Size of the financial assistance

The ex-ante evaluation of the MFA published in December 2013[31] envisaged that the MFA financial assistance would contribute to closing the residual financing gap in 2014 and 2015. The operation would cover 10.8 per cent of the residual financing gap for both years estimated at circa USD 3 billion, and would complement, inter alia, the IMF SBA and WB DPL assistance. Following some delay in the implementation of the operation, and as part of the ex-ante assessment of the MFA II[32], revised estimates were produced in early 2016 (see Table 9). According to these, the MFA I was expected to account for 11.3 per cent of the residual financing gap for the period 2015-2016, albeit its share in 2015 was much greater (14.8 per cent) as the operation was significantly frontloaded with two thirds of the total financial envelope disbursed in 2015.

Table 9. Tunisia external financing gap and potential financing sources, USD mln

	2015	2016	2017	Total 2015-2016
Overall external financing gap	-2,283	-2,683	-2,431	4,966
Exceptional financing from by IMF and WB	802	1,265	978	2,067
Net IMF disbursements	302	765	478	1,067
WB DPL's disbursements	500	500	500	1,000
Residual financing gap	-1,481	-1,418	-1,453	2,899
EU MFA I	220	110	0	330
EU MFA II	0	385	165	385
EU budget support grants	100	100	100	200
AfDB	200	250	0	450
AMF	42	0	0	42

[31] European Commission, December 2013. Ex-ante evaluation statement on the EU macro-financial assistance I to Tunisia.

[32] European Commission, February 2016. Ex-ante evaluation statement on the EU macro-financial assistance II to Tunisia. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/PDF/?uri=CELEX:52016SC0030&from=EN

	2015	2016	2017	Total 2015-2016
US guarantee bonds	0	500	0	500
Algeria	250	0	0	250
Other financing sources (incl. int. markets)	0	73	1,188	73
Total identified sources	**812**	**1,408**	**1,453**	**2,210**

Source: IMF staff estimates from November 2015 and EC staff calculations

Eventually, as a result of further delays (see Section 3.1), two tranches totalling to EUR 200 mln were disbursed in 2015 while the last EUR 100 mln tranche came in 2017. These MFA disbursements corresponded to circa 0.5 per cent and 0.3 per cent of GDP in 2015 and 2017 respectively. For illustrative purposes, public expenditure on PNAFN (one of the main social assistance programmes in Tunisia) represents ~0.5 per cent of GDP. The size of the MFA was therefore not an insignificant amount, also in the context of persistent current account deficit, the pressing need to build up the reserves level and increasing debt amortisation, in particular in 2017 (see Figure 12).

When put in the context of budget support type operations provided by some international donors between in 2015 and 2017 specifically, the situation MFA I exceeded the size of the AfDB assistance (EUR 183 mln deployed *via* Regional Development and Job Creation Program[33]) in 2015 but was less than a half of what WB deployed over the same year (EUR 455 mln deployed *via* GOJ DPL-2[34]) and circa one fourth less compared to the IMF assistance in 2015 (EUR 261 mln *via* SBA[35]) (see Figure 11). The relative size of the MFA I to the IMF and WB assistance shrank in 2017 while AfDB did not provide any budget support that year as it reached the maximum risk exposure in Tunisia by then (see Figure 10).

[33] AfDB, 2016. IDEV. Available at: http://idev.afdb.org/sites/default/files/documents/files/IDEV_Evaluation%20Report%202016_Tunisia_English_Web.pdf

[34] WB, 2018. Summary results from the GOJ DPL-2. Available at: http://projects.worldbank.org/P132709?lang=en

[35] IMF, 2019. Transactions with Tunisia. Available at: https://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=970&endDate=2018-07-12&finposition_flag=YES

Figure 10. MFA and budget support from IFIs, EUR mln in 2015

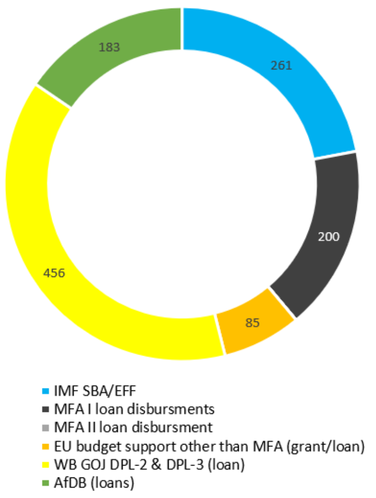
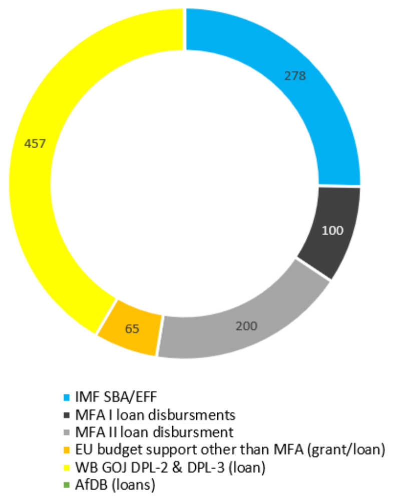


Figure 11. MFA and budget support from IFIs, EUR mln in 2017



Source: WB, AfDB, IMF and the EC data

There was a consensus among the key consulted stakeholders that an increase of the MFA size from initially proposed EUR 250 mln to EUR 300 mln was an appropriate decision[36]. Some stakeholders, including the IMF and EEAS, went even further, arguing that the amount should have been higher, though they also recognised the existence of other types of the EU financed assistance that complemented the MFA I i.e. existing EU budget support programs in Tunisia as well as the MFA II. From the standpoint of the Ministry of Finance and Central Bank[37], the size of the MFA I envelope was meaningful but not critical (see further discussion under Section 6.1.2).

Among the reasons why the Commission had been initially reluctant to propose a larger operation, were concerns over its budgetary impact, given the need to budget for the provisioning of the Guarantee Fund for External Action. The operation was eventually increased in size by EUR 50 mln due to political and economic considerations and given the limited budgetary impact of this increase.

In historical (and absolute) terms, leaving aside the MFA I, II and III operations to Ukraine of an unprecedented size of EUR 600 mln, EUR 1,000 mln and EUR 1,600 mln respectively, the size of the MFA I operation to Tunisia has been the third largest MFA operation since 2000, being surpassed only by the MFA operation to Serbia approved in 2001 (EUR 345 mln) and the more recent MFA II operation to Tunisia (EUR 500 mln) that entered into force in 2017[38].

As the time elapsed, there was a growing awareness about steadily increasing financing needs of the country. While the interviews with the European Commission staff and the Tunisian Ministry of Finance did not reveal that MFA II operation was contemplated already prior to the approval of the MFA I, the financing needs were only further amplified by the fallout from 2015 terrorist attack in Sousse which in turn triggered the

[36] View expressed for instance by EU Delegation, IMF and WB

[37] Interviews conducted during the mission in Tunisia

[38] 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

request for MFA II operation resulting in the total envelope of EUR 800 mln committed under both MFA operations.

5.2 Form of the financial assistance

By default, 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 for a combination of loans and grants, depending on: (i) its level of economic and social development; and (ii) its debt sustainability and repayment capacity while taking into account other criteria such its eligibility to concessional finance from other donors and EU's budgetary constraints. In its letter requesting MFA, the Tunisian government specifically asked for a portion of the assistance to be paid in grant[39].

While EU's budgetary constraints do not seem to have been the main limiting factor explaining the loan format of the operation[40], the ex-ante evaluation highlights several reasons why Tunisia, despite the request from the authorities, did not qualify for a grant component, referring to the above-mentioned criteria. Firstly, as of 2013, Tunisia's per capita GNI (based on Atlas method) was USD 4,130[41] exceeding the ceiling for the lower middle-income country category[42] and above the median level of the Southern Partners covered by the ENP[43]. In addition, another reason highlighted in the ex-ante assessment was the lack of Tunisia's eligibility for the IDA and the IMF's Poverty Reduction and Growth Trust[44]. The earlier data on the poverty level for Tunisia has been patchy but the percentage of the poverty headcount ratio at national poverty lines was 15.2 per cent in 2016[45].

The loan format was also justified considering that EU grant support to Tunisia has increased, in parallel to the MFA, to respond to the same crisis (see also Section 9.2).

Last but not least, the loan itself was provided on concessional terms (interest rates varying between 0.490 per cent and 1.250 per cent at the maturity between 12 and 15 years - depending on the tranche). This concessional form of the MFA (back-to-back on-lending at EU market conditions at the time of disbursement) has been received positively by the Tunisian authorities (considering alternatives would have been costlier), even though there has been some initial disappointment with regard to the non-availability of grants.

The level of public debt, another criterion considered in the context of the form of the MFA assistance, was assessed as 'manageable' by the Commission back in 2013, even

[39] EUR 50 mln out of EUR 500 mln requested

[40] In 2014 and 2015, when the commitment for the MFA operation meant to materialize, uncommitted budget allocations for MFA grants represented, in total, a third of the MFA operation to Tunisia. 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

[41] World Bank, 2018. Income Classification. Available at: https://datahelpdesk.worldbank.org/knowledgebase/articles/906519-world-bank-country-and-lending-groups

[42] For a country to be eligible for grant, it needs to be in the lower middle income category or below.

[43] The Southern Partners under ENP include: Algeria (USD 5,140), Egypt (USD 2,790), Israel (USD 32,180), Jordan (USD 3,680), Lebanon (USD 8,530), Morocco (USD 2,970), the Palestinian Authority (USD 2,970) and Tunisia (USD 4,130)

[44] European Commission, November 2013. Ex-ante evaluation statement on EU macro-financial assistance to the Republic of Tunisia. Available at: http://ec.europa.eu/economy_finance/eu_borrower/documents/ex-ante_evaluation_-_mfa_tunisia_en.pdf

[45] World Bank, 2018. Poverty level data. Available at: https://data.worldbank.org/indicator/SI.POV.NAHC?end=2015&start=2009

though it was expected to peak it 2015 (and then start to tail off again). The DSA (Section 10) examines in more detail whether the MFA loan has had a significant impact on the Tunisia's indebtedness levels and whether the size and terms of loan was justifiable from the economic perspective of the recipient country.

5.3 Timing of the operation

Overall, despite protracted negotiations and ratification of the operation by the Tunisian Parliament and the subsequent time lag between 2nd and 3rd tranche, the relevance of the MFA remained high[46].

The first tranche of the MFA disbursed in May 2015 came one month before Sousse terrorist attacks. The last tranche in turn coincided with a considerable debt repayment obligation (EUR 356 mln) scheduled for July 2017 (see Figure 12), and more generally a gradual deterioration of the fiscal stance (public deficit grew from 5.6 per cent in 2016 to 6.5 per cent in 2017).

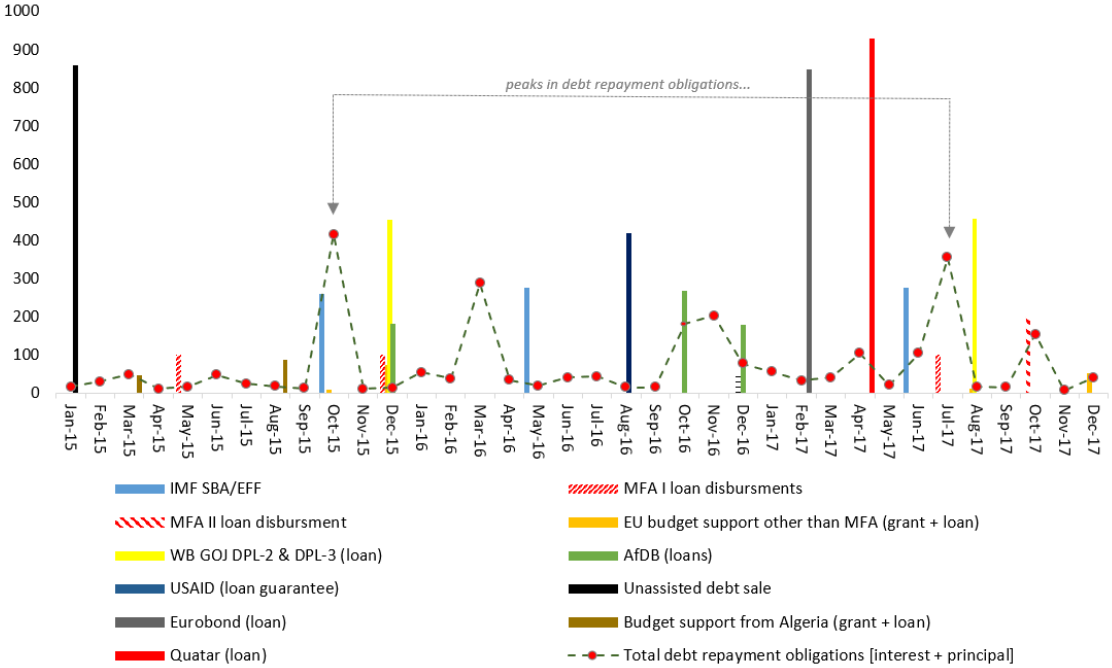
The Ministry of Finance had factored in EUR 300 mln MFA revenue in the draft budget for 2014 but given its absence, it drew on domestic debt markets as well as some proceeds from the privatisation of the Tunisian Telecom. Overall, while some delays in approval of the MFA followed by the delay in last disbursement were not desirable, the Ministry stated that it was able to offset them rather comfortably with other sources.

The IMF pointed out that in terms of the timing of the MFA, it had been aware of the difficulty to predict precisely its time of approval given the lengthy and complex approval process.

Nearly 80 per cent of experts who responded to Delphi surrey (2nd round) agreed/ strongly agreed that MFA I provided between 2015-2017 '*helped make the necessary economic adjustment in Tunisia less harsh and abrupt*'.

[46] Firm view expressed by key stakeholder such as IMF, WB, DG ECFIN, the Ministry of Finance and the participants of the Focus Group.

Figure 12. MFA and budget support type assistance provided to Tunisia in 2015-17 versus debt repayment obligations, in EUR million



Source: IMF, WB, Ministry of Finance, DG ECFIN data on budget support operations for 2014-2017

Note: 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/

5.4 Relevance of MFA conditionality

The vademecum on EU macro financial assistance to third countries provides a set of principles to guide the design and selection of MFA conditionality. These include:

- Limited number of structural conditions focusing on reforms related to the core objective of the macro-financial assistance instrument, i.e. restoring short term economic balance;
- Ensuring a clear link between the nature of structural conditionality and the short timescale of their implementation to avoid the request of waivers at the time of the disbursement;
- Reducing the number of cross-conditionality with IMF/ WB and selecting those which are in line with EU priorities in view of giving them further emphasis.

Furthermore, the Joint Declaration of European Parliament and the Council from August 2013 stipulates the following:

- Conditionality should include measures that aim to enhance the efficiency, transparency and accountability of PFM systems to strengthen the beneficiary country’s governance and to protect the EU’s financial interests;
- EU’s external policy objectives should be taken into account in designing the policy measures and as such conditionality should include measures aimed at mutual market opening, the development of rules-based and fair trade etc.;

- MFA conditionality should be consistent with the existing partnership agreements, cooperation agreements or association agreements concluded between the EU and the beneficiary and with the macroeconomic adjustment and structural reform programmes implemented by the beneficiary with the support of the IMF.

Additionally, in order to fulfil the requirements of the Financial Regulation, the Commission has to obtain reasonable assurances about the reliability of the financial and administrative circuits and procedures of the recipient country before signing the Memorandum of Understanding (MoU). To this end, the Commission appoints external consultants to conduct an Operational Assessment (OA) of the reliability of financial circuits and administrative controls at the Ministry of Finance and the Central Bank. Based on the OA report's findings, the Commission services determine whether the framework for sound financial management is sufficiently effective in the recipient country. The results of the OA often also contribute to the design of conditionality in the area of public finance management.

With the above principles in mind, this sub-section examines the overall relevance of the MFA conditionality package.

5.4.1 The extent to which the design and focus of conditionality was in line with the core objectives of the operation and EU priorities

The MFA operation focused on the following reform areas: (i) taxation, (ii) social safety net, (iii) financial sector, (iv) public finance management (PFM), (v) statistics and (vi) trade policy. The theory of change illustrated Figure 9 shows how specific conditionality selected in each of these areas contribute to one or more of the following outcomes:

- Improved public finances (tax reforms, SSN reforms);
- Improved economic governance either through an improvement in PFM systems (PFM reforms) or via an improvement in tools for macroeconomic surveillance and policy making (statistics);
- Reduction in social inequalities (SSN reforms);
- Financial sector stability and resilience (financial sector);
- Improved framework for trading with the EU (trade policy).

These outcomes in turn have a clear link either to the objectives of the MFA operation (macroeconomic stability) and/or EU external policy objectives (trade policy). Additionally, given the specific context of Tunisia (high levels of regional and income inequalities), there was focus on cushioning the social impact of the crisis and reducing income inequalities by including reforms aimed at improving the targeting and reinforcement of social assistance programmes. This was necessary and justified in the Tunisian context.

5.4.1.1 Number, scope and focus of conditionality

The number and scope of conditionality should take into account the time required to complete the reforms as well as the specific characteristics of the MFA instrument. In practice this means that given the relatively short-term nature of the MFA and the need for swift action by the beneficiary country, it should be possible to implement the required reforms within a window of 6 to 12 months. This de facto, limits the number and ambition of conditionality that can be attached to MFA operations. Moreover, the size and form of a specific MFA operation (loan versus grant) and how it fits in within the overall package of EU support, also influences the leverage that the EU has in promoting reforms in a particular country context.

The Ministry of Development, Investment and International Cooperation (MDIIC), however, was critical of both the number and scope of MFA conditionality. According to its representatives, "*the MFA was not flexible and light touch as indicated (during the initial discussions with the Tunisian authorities), but heavy in terms of the number and diversity of reforms*". The MDIIC further added that MFA conditionality was "*disproportionate to the amount of assistance provided"* and that *"big reforms were pushed*". In this context, the MDIIC specifically mentioned that inclusion of conditions requiring legislative action (draft law on Cour de Comptes, trade policy reforms which required legislative action) and the SSN related reform were especially problematic in as the Parliament have had reduced capacity to deal with its workload. Besides, from the perspective of the MDIIC, the trade related and SSN reforms implied involvement of a number of other ministries whose buy-in and contributions were required to implement these reforms swiftly, something which proved to be challenging.

In view of the evaluation team, the perspective of the Ministry regarding the number of conditions has not been justified. The number of conditionality was not excessive, especially considering the nature and scale of challenges facing the country, size of the MFA financial envelope and the urgent need for reform in several areas. The number of conditions under the MFA I also did not deviate from the structure of the past MFA operations from other countries. At the same time, the perspective of the MDIIC regarding the breadth of reforms promoted by the MFA (six areas) implying, inter alia, involvement of a number of other ministries in the fulfilment of some conditions (notably trade related ones), seems to warrant some consideration, in particular in the context of the breadth of some reforms (see Sections 5.4.2.2 and 5.4.2.6), their eventual effectiveness (Section 6.2.2) and the existing capacity of some Tunisian institutions (see Section 7.2.2).

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

This is discussed under section 9 on coherence.

5.4.1.3 The extent to which the operation addressed priority areas for reform

Typically, the consideration of what type of reforms should be attached to the funding is preceded by a country-specific needs assessment. More generally, targeted reform areas should be in line with the country priorities. The political and institutional instability that followed the revolution did not help to define clear priorities benefiting from wider political (and social) support in Tunisia. The Five-Year Socio Economic Development Plan for 2016-2020 formulated in 2015/16 was the first development plan adopted after the revolution.

In the case of Tunisia as is the case usually, there was an ex-ante assessment in 2013 which, inter alia, listed the country's structural reform needs. All the reform areas which were addressed by MFA conditionalities (except statistics, for which a quite narrow-focused condition was formulated) had been identified in the ex-ante assessment. The ex-ante assessment contained two further priority areas around labour market reform and investment and business climate, which have not been addressed as part of MFA I[47]. While there is a case to argue that the number of areas targeted should remain limited, there were also demands to focus on reforms with potentially swift and tangible improvements for the population which was facing the high unemployment being one of the main concerns. The views of the civil society on this point expressed during the focus group as well as the perspectives shared by the EU Delegation and the WB was that all

[47] These have been addressed by MFA II

areas addressed by the MFA conditionality were relevant. At the same time though, they reckoned that the breadth of a few specific conditions could have been possibly too high given share work that their fulfillment required *versus* the timeline for the fulfillment, the capacity of the Tunisian institutions and the challenging context. For more details see discussion under Sections 5.4.2.2, 5.4.2.6 and 6.2.2 in relation to SSN and trade related reforms, and Section 7.2 in relation to ownership and capacity for the reforms.

Aside from the challenges identified in the ex-ante assessment, it is widely acknowledged in literature that high levels of inequalities (regional as well as income) and youth unemployment are the two most pressing issues facing Tunisia. These issues, however, have neither short term nor easy solutions and as such are more appropriately tackled through development programs.

5.4.2 Relevance of specific reform areas and conditionalities

The relevance of each targeted reform area is further discussed below. Alongside the principles discussed above (which provide a general framework for design of MFA conditionality), the design and selection of specific conditionality should additionally take into account factors such as national ownership and implementation capacity to reduce the risk of implementation deficit and subsequent backtracking.

This analysis of relevance under this section should be also read in conjunction with the detailed conditionality tables (see Table 13 to Table 21).

5.4.2.1 Public finance management reform

Action 5 of MFA I required the government to submit to parliament a new law on the *Cour des Comptes* (CdC) reflecting the provisions in the 2014 Constitution, and in particular, reinforcing the administrative and financial independence of the CdC and ensuring a sufficiently wide remit in terms of the type of public accounts it can audit, in line with INTOSAI standards. It also required that the law defines the modalities for the publication and follow-up of the CdC's findings and clarifies the sanctions regime.

As mentioned earlier, the Joint Declaration of European Parliament and the Council from August 2013 emphasises the requirement to promote PFM reforms via the MFA. Accordingly, and in line with standard practice, the Commission undertook an Operational Assessment (OA) of the Tunisian financial circuits and procedures[48]. Although primarily conducted with the objective to confirm that the Tunisian public finance management system is fit to receive MFA funds, the OA also helps to determine the priority needs for the PFM reform area. The selected condition (requiring the government to submit to parliament a new law on the CdC reflecting the provisions in the new Constitution) addresses one of the issues identified as high priority in the OA.

As noted above, this was one of the conditions highlighted as problematic by the MDIIC as its ultimate benefits hinged on the assumption of the successful passage of the legislation by the Tunisian Parliament. Yet, in this context, it needs to be clarified that the MFA condition required *submission* of the new law on the Cour des Comptes to the Parliament, but not its approval, something that is ultimately entirely up to the Tunisian assembly.

More details in the context of the relevance of this condition are presented in the Table 17.

[48] See references in the ex-ante statements and Memorandum of Understanding

5.4.2.2 Social Safety Net reforms

Stakeholders regarded the two conditions related to the SSN (Action 2 and Action 6) as highly relevant[49]. Specific reasons are outlined below:

- *The rationale for launching a survey of existing beneficiaries of social programmes and creating a unified database of beneficiaries of social assistance programmes:*

  The main existing social safety net programme providing cash transfers to vulnerable families, namely the "Programme National d'Aide Aux Familles Nécessiteuses" (PNAFN) has been set up in 1986 following a first reform of subsidies promoted by an earlier IMF programme. It has been designed as a monthly unconditional cash transfer programme and is managed by the Ministry of Social Affairs. It targets primarily people living below the poverty line who are unable to work due to old age, disability or chronic disease, and those who cannot be supported by their families. In 2013, around 220,000 households were receiving a cash transfer of 105 TND per month, which represented about 18% of the poverty line used to determine eligibility (or 0.6 per cent). PNAFN beneficiaries are also exempted from fees for the use of health services at public health centres (under a programme called AMGI) and receive monthly monetary transfers worth 10 dinars per child enrolled in school (for up to three children per family). PNAFN has however been found to be insufficiently targeted to the poor. Indeed, while the resources available for PNAFN allow to cover 8.3 per cent of the population, only 3.9 per cent of the 8.3 per cent poorest population (so circa 47 per cent) are covered by the PNAFN. While 49 per cent of those 8.3 per cent poorest are covered by the other programme offering health care at a reduced rate (AMGII), 6 per cent do not benefit at all from the existing SSN. Furthermore, 16 per cent of the resources available for PNAFN reach households which do not belong to the 30 per cent poorest section of the population[50]. Now, these results are not totally dissimilar to the situation observed in other developing countries and the targeting will never be made on perfect information and so it would be unrealistic to expect that the 8.3 per cent of the population covered by the PNAFN will match exactly the 8.3 per cent who are the poorest. Yet, there is still room to improve targeting notably if Tunisia's SSN information system were to be revamped. Currently the system is not computerised (i.e. all records regarding the beneficiaries kept in paper format), fragmented, divided and complex. The survey will be a first step in populating a database and having the machinery in place to target social assistance more adequately.

- *The rationale for reinforcing existing cash transfer programmes*: Subsidies and transfers accounted for roughly 7 per cent of the Tunisian GDP during 2012-14. Of this spending, energy subsidies represented 3-4 per cent of the GDP. Universal subsidies, particularly for fuel, are regressive, with an estimated 70 percent of the subsidy bill benefitting the wealthiest 20 percent of the population[51]. The IMF was therefore promoting reform of the energy price subsidies. The aim of the MFA conditionality was to offset the impact of rise in energy prices on poor and vulnerable households.

Despite the clear need to advance reforms in the SSN area, MDIIC and WB, however, expressed the view that with the benefit of hindsight (and also considering the first

[49] Firm views expressed by the EU Delegation, WB, IMF and the Ministry of Social Affairs.

[50] CRES (2017) Évaluation de la performance des programmes d'assistance sociale en Tunisie. Available at: http://www.cres.tn/uploads/tx_wdbiblio/Rapport_CRES_mai_2017.pdf

[51] Ibid

unsuccessful attempts to make progress on this as part of earlier PAR programmes), the scope of the condition related to SSN was too ambitious. WB perceived the reform of the SSN back in 2014/2015 as *"not mature enough"* to be incorporated under relatively short-term instrument as the MFA (this can be seen from the three-year delay in launch and implementation of the survey underpinning the database). It is only now when the bank considers including SSN reforms in its currently negotiated budget support operation, several years after continuous technical assistance provided to Tunisian authorities in this area. What emerged from the mission was that while, initially, national ownership of SSN reforms has been high, there was insufficient capacity to deliver these reforms particularly at the time the MFA was negotiated. The views expressed during the focus group and the interview with the EEAS corroborated with this perspective.

Table 14 and Table 18, Section 10 (Social Impact Analysis) and Annex 10 (Case Study) provide more details about the relevance of these two conditions.

5.4.2.3 Financial sector reforms

Tunisia's financial sector is a key source of macroeconomic vulnerability and a significant source of contingent liabilities for the government: it is characterised by the dominance of public banks, poor quality loan portfolio, low capitalisation, weak supervisory and regulatory framework and liquidity deficits. In recent years, Tunisia has however, taken several important steps in recent years to address these weaknesses, including some supported by the MFA I programme.

These include:

- Approval of the new law on the central bank by the Parliament in April 2016, which brought it in line with the provisions of the new 2014 Constitution and strengthened the central bank's governance and lender of last resort function (Action 3).
- A new banking law was passed by parliament in May 2016, which introduces a banking resolution mechanism, strengthens prudential regulations and governance and foresees the creation of a deposit guarantee scheme (Action 7).

Scoping interviews suggest that the Tunisian authorities had strong ownership and commitment to these reforms. Prior to the negotiation of the MFA, a comprehensive set of reforms had been launched by the Tunisian authorities to address the weaknesses in the financial sector, with a specific focus on aligning banking practices with international standards and strengthening bank supervision. For instance, a medium-term plan to build effective banking supervision was initiated by the authorities in February 2012. Furthermore, in 2013, the authorities published a decree strengthening the governance of state-owned banks by excluding them from the scope of the law governing public companies, thereby making them subject to the same rules as private banks. The Central Bank was also actively involved in public bank audits and recapitalisation efforts. All this proves the commitment of the authorities to making progress in this reform area[52].

Notwithstanding the above efforts, a joint International Monetary Fund—World Bank Financial Sector Assessment Program (FSAP) mission to Tunisia during January 11–25, 2012 identified several priority areas of reform including the need to strengthen to banking sector supervision, the need to develop a special bank resolution regime, to ensure appropriate independence of the supervisor and revise the lender-of-last-resort framework.[53] The IMF's first safeguards assessment of the Central Bank of Tunisia,

[52] IMF, 2014.First and Second Reviews under the Stand-By Arrangement, Request For Waivers Of Applicability And Nonobervance Of Performance Criteria

[53] IMF (2012) Country Report No. 12/241 - Tunisia: Financial System Stability Assessment, August 2012

finalised in June 2013, also specifically highlighted how the Central Bank needed more autonomy.

Consequently, improved supervision, governance and regulation of the financial sector were also identified as priority areas of reform by the IMF in the 2013 SBA. Specifically, the MFA conditions represented areas of cross-conditionality with the IMF programme which contained the following structural benchmarks:

- Submission to the Management of the Central Bank of Tunisia of a banking resolution framework in line with international practices;
- Submission to the Central Bank Board of a draft Central Banking law in line with international practices.

5.4.2.4 Tax related reform

The tax system in Tunisia is complex and characterised by an excessive number of exemptions. The simplified income tax declaration system ("le régime forfaitaire") that was covered by the MFA condition has been one example of it.

The total number of taxpayers using régime forfaitaire rose from 318,000 in 2011 to 421,000 in 2018[54]. Some crude estimates of the Ministry of Finance, although not backed by a systematic research, suggest that circa 250,000 - 300,000 current taxpayers under régime forfaitaire, or 60-70 per cent of all, are *de facto* not eligible given their actual annual revenue. These staggering figures have been confirmed by the interviewed independent tax experts involved in the USAID technical assistance program concentrated on rationalisation of tax policies and modernisation of tax administration in Tunisia.

In addition, and not least importantly, régime forfaitaire in its current form has been also inequitable in its nature. It has put an unfair share of the fiscal burden on the least affluent households given that it has been used by some well off taxpayers to avoid the higher rates of the standard corporate tax and simplified declaration system.

Given the fiscal and social challenges facing Tunisia (high fiscal deficit, huge income inequalities), and the need to ensure a fairness of the existing tax system following also on the principles of the Revolution, there has been absolutely no doubts in view of interviewed donors, civil society and local experts that it was relevant and appropriate for the Commission to include the régime forfaitaire in the MFA conditionality package.

Table 13 and the Annex 11 (Case Study) present more details on the relevance of this condition.

5.4.2.5 Reform of national statistics

The essence of the Action 4 related to statistics was to enhance the governance of the national statistics system, as well as the production and dissemination of statistical data. The National Institute of Statistics (NIS) and other public entities being part of the national statistics system meant to adopt a national chart of public statistics consistent with the United Nations Fundamental Principles of Official Statistics[55] and the European Statistics Code of Practice[56].

[54] Data provided by the Ministry of Finance

[55] UNECE, 2019. Fundamental Principles of Official Statistics. Available at: http://www.unece.org/?id=3207

[56] Eurostat, 2019. European Statistics Code of Practice. Available at: https://ec.europa.eu/eurostat/web/quality/european-statistics-code-of-practice

The specific rationale for the reform is also set out in the Commission’s information note to the Council and the Parliament on the disbursement of the second tranche of the MFA[57]. Since late 2013, EUROSTAT, supported by other Member States’ national institutes of statistics, has been carrying out an overall assessment of Tunisia's statistical system. Among the conclusions drawn, the main one related to the need for Tunisia to enact the necessary legislation to ensure the full independence of the NIS, and to strengthen other aspects of the governance of the statistical system, including simplification and more effective coordination of the activities of approximately 50 institutions involved in the production and use of national statistics in Tunisia. This conditionality therefore meets the requirement for the MFA to have certain EU specific conditionality alongside addressing weaknesses in the statistical institutional system.

The desk research related to the existing system of production of statistics in Tunisia also highlighted the relevance of this condition. For instance, the existing law on National Statistics from 1999 still does not fully guarantee the professional independence and the autonomy of the governance of the NIS[58].

Furthermore, the interviews with the NIS as well as the key stakeholders such as EU Delegation, IMF and WB also confirmed its relevance.

Table 16 presents more details on the relevance of this condition.

5.4.2.6 Trade related reforms

The two conditions in the area of trade policy referred to:

- Action 8: Substantial advancement with the process of converting the existing system of industrial compulsory standards (*normes homologuées)* into a system aligned with that of the EU, based on compulsory technical regulations at sector level and voluntary product standards. Particular focus was made on the two priority sectors that have been covered by the Agreement on Conformity Assessment and Acceptance (ACAA) namely, building materials and electrical and electronic products.
- Action 9: Submission to the Parliament of the legislation that would align the institutional setting for market surveillance with the EU's New Legislative Framework adopted in 2008. In particular, the government meant to submit to Parliament the law on security of industrial products and the law on food security.

Both conditions intended to contribute to the effort of fostering trade relations between Tunisia and the EU, the objective that has been very high on the agenda of both partners given, inter alia, how critical trading partner has the European Community been for Tunisia[59]. The conditions fed into the negotiations concerning ACAA and the subsequent one on the *Deep and Comprehensive Free Trade Agreement* (DCFTA) launched in October 2015.

More specifically, and in relation to Action 8, the conversion of the system of overly detailed and compulsory *norms homologuees"* into a system (aligned with that of the EU) based on mandatory "technical regulations" at sectoral level and voluntary "standards" at

[57] ECFIN.D2/FDM Ares(2015)5784737

[58] See for instance Kapitalis, 2018. Tunisie: l’INS n’est pas seul responsible des statistique non-crédible. Available at: http://kapitalis.com/tunisie/2018/11/22/tunisie-lins-nest-pas-seul-responsable-des-statistiques-non-credibles/ or African Manager, 2018. Les ingénieurs de l’INS appellant les auteurs politique á renforcer l’indépendence de l’institution. Available at: https://africanmanager.com/les-ingenieurs-de-lins-appellent-les-acteurs-politiques-a-renforcer-lindependance-de-linstitution/

[59] In 2017, 64 per cent of the Tunisian trade was made with the EU, including 78.5 per cent of its export

product level was a requirement of a law on standards adopted in 2009 (law 2009/38). This law foresaw the completion of this conversion process by June 2014. This deadline was then postponed to 30 June 2017 through an amendment of the law.

While there has been consensus about the general importance of the trade related reforms in Tunisia, during the interviews at scoping stage and those conducted in Tunisia, however, some stakeholders[60] expressed the view that one MFA trade related condition (Action 8) may have been overly ambitious and there could have been better alignment between the complexity of this reform, the suboptimal capacity of some Tunisian institutions and challenging context on the one hand, and the relatively short-term character of the reforms (6-12 months) that are most suitable given the general characteristics of the MFA instrument and the desire of swift disbursements.

The desk research and the interviews did not reveal any evidence on possible disagreement between the European Commission and local authorities whether to include this condition or not. Though, the interviewee from the EEAS reckoned post factum that the Tunisian side may have been overly optimistic and overstated its capacity to implement the reform. In the same vein, ECFIN also acknowledged in its mission report from 2017 that retrospectively, it did not have enough necessary information while designing and negotiating this condition.

Table 20 and Table 21 present more details on the relevance of this condition.

[60] For instance, the Ministry of Industry and SMEs, Ministry of Development, Industry and International Cooperation, EEAS, EU Delegation, WB and the focus group participants.

6 Effectiveness of the MFA

Question 2: *To what extent have the objectives of the MFA operation been achieved?*

The objectives of MFA I to Tunisia are, as set out, inter alia, in the Memoranda of Understanding (MoU)[61] to is "*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 face the current external and financial vulnerabilities stemming largely from the prolonged political and economic domestic transition. This assistance from the European Union is complementary to the resources provided to the Country by International Financial Institutions and bilateral donors in support of the authorities' economic stabilisation and reform programme*".

There are therefore, two strands of analysis to answering the question on effectiveness:

Part 1: The role of MFA in promoting macroeconomic stability, easing external financing constraints and alleviating Tunisia balance of payments and budgetary needs

Part 2: Effectiveness of structural reforms.

6.1 Part 1: The role of MFA in promoting macroeconomic stability

In order to assess the role of MFA in promoting macroeconomic stability, easing external financing constraints and alleviating Tunisia's balance of payments and budgetary needs, a two-step approach has been applied:

- ***Step 1: Examining the observed macroeconomic outcomes***

This step involves the analysis of the actual developments and the extent to which MFA's objectives have been achieved, irrespective of the actual role of the MFA.

- ***Step 2: Assessing the role and contribution of MFA to observed outcomes***

Based on the context explored in Step 1, Step 2 involves a qualitatively driven approach to assess the role and contribution of the MFA. It relies on inferences taken from the desk research, interviews, insights from the focus group with development partners and expert opinions and seeks to explore the potential consequences had the MFA (with or without IMF support) not been provided. In addition, summary of the Debt Sustainability Analysis evaluating the role of the MFA for the sustainability of the public debt during the implementation period is added to this assessment.

6.1.1 Step 1: Examining the observed macroeconomic outcomes

The following section describes the evolution and underlying factors behind the GDP growth and its main components, external sector, public sector finances, inflation, unemployment and the developments in the banking sector covering also the period of implementation of the MFA.

A slow and painful economic recovery held back by political uncertainty, social unrest and deep rooted structural weaknesses

After averaging 4.5 percent during 2000–10, real GDP contracted by 1.9 percent in 2011, the year of the revolution. The Tunisian economy bounced back strongly in 2012 with a healthy (although still below potential) growth rate of 3.9 percent. Economic performance was however, weaker than envisaged in 2013 due to political turmoil (following two political assassinations and security issues), a strike-weary manufacturing sector and lower agricultural production.

[61] MoU for MFA I to Tunisia, August 2014.

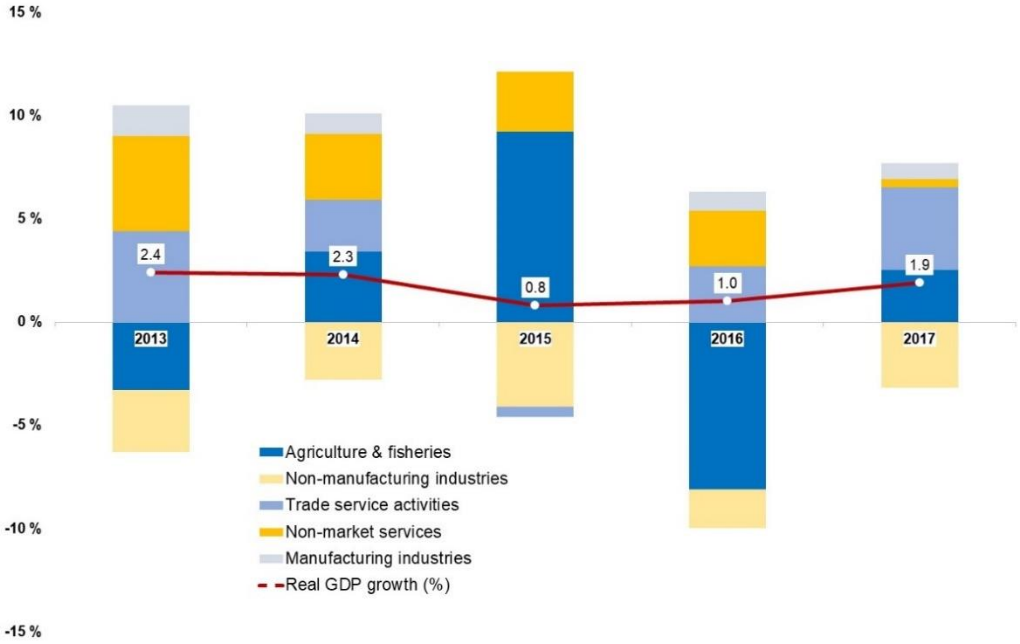
The following year got off to a promising start, with improved performance in the services and agricultural sectors as well as renewed investor confidence brought about by the arrival of a new government and a new constitution, but the economy was unable to maintain the growth momentum in the latter part of 2014. At the end of the year, primary production (notably in the mining industry) - though showing signs of recovery - remained 40 per cent below pre-revolution levels. The manufacturing sector also underperformed due to sluggish demand from the EU, the destination of most manufactured exports.

Tunisia's economic situation significantly worsened in 2015 due to the negative effects of the two terrorist attacks in the first half of the year. Overall, the economy grew at a dismal rate of 0.8 per cent over the year, mainly due to record agriculture production offsetting declines in mining, energy, and tourism activities.

Economic growth remained stagnant in the following year. The tradable services and the non-tradable activities sectors, each grew by 2.7 per cent, while the manufacturing sector posted a modest growth of 0.9 per cent. Much of the growth in these sectors was however, offset by a decline (8 per cent) in agricultural output. External aid from various international donors was also prominent in 2016, allowing the Tunisian government to pursue a wide-ranging series of reforms in view of boosting short-term growth levels and putting the country on a stronger and more sustainable long-term development / growth path.

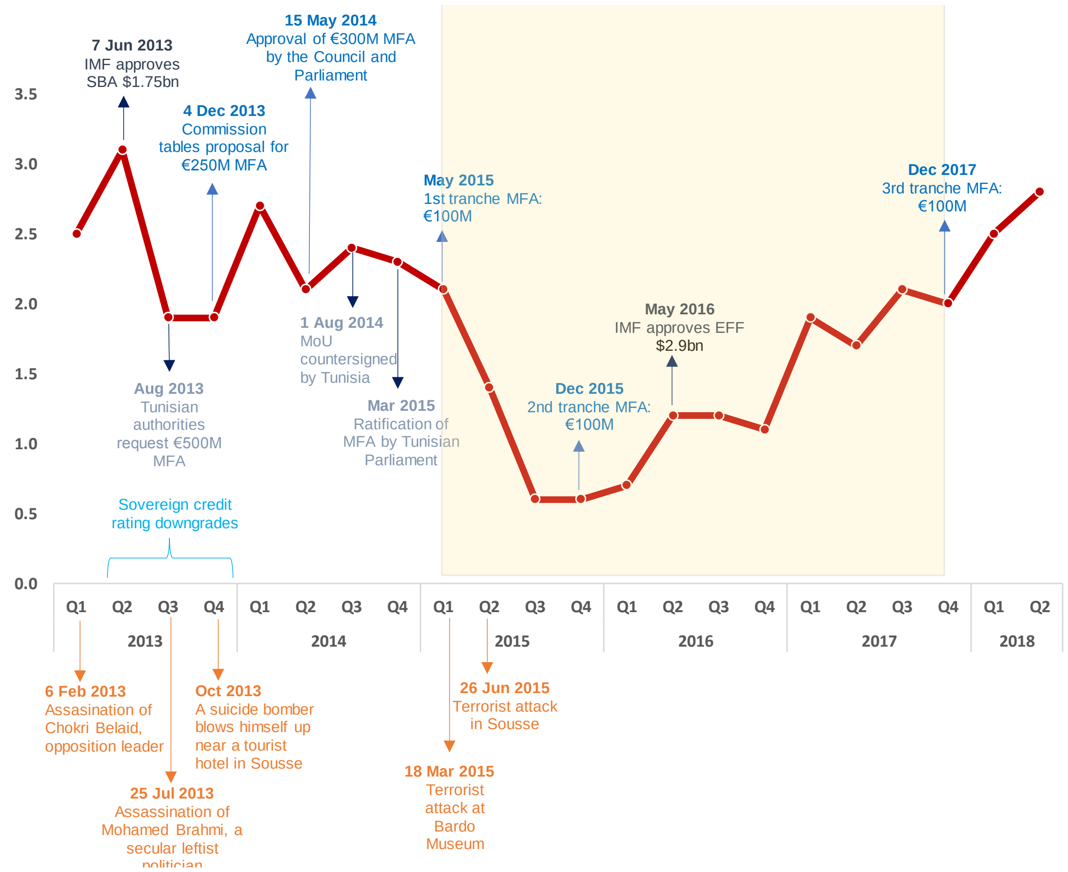
In 2017, the Tunisian economy grew by 1.9 percent, a faster rate than in 2016 but below initial estimations (at around 3 per cent). Several positive factors helped support growth in 2017 and are expected to continue in 2018–19. The improved security situation helped to revive the badly-hit tourism industry. A 32 per cent increase was observed in tourism revenues. Additionally, phosphate production and exports rebounded strongly, while investment (both domestic and foreign) showed early signs of recovery. Tunisia also continued to benefit from strong support from the international donor community and furthered the reforms necessary to benefit from the support of these development partners. Reforms focusing on developing the private sector further were particularly at the forefront of structural reforms endorsed by the Tunisian government.

Figure 13. Annual real GDP growth and sectoral contribution to growth



Source: National Institute of Statistics

Figure 14. Real GDP Growth Rate – Quarterly Data

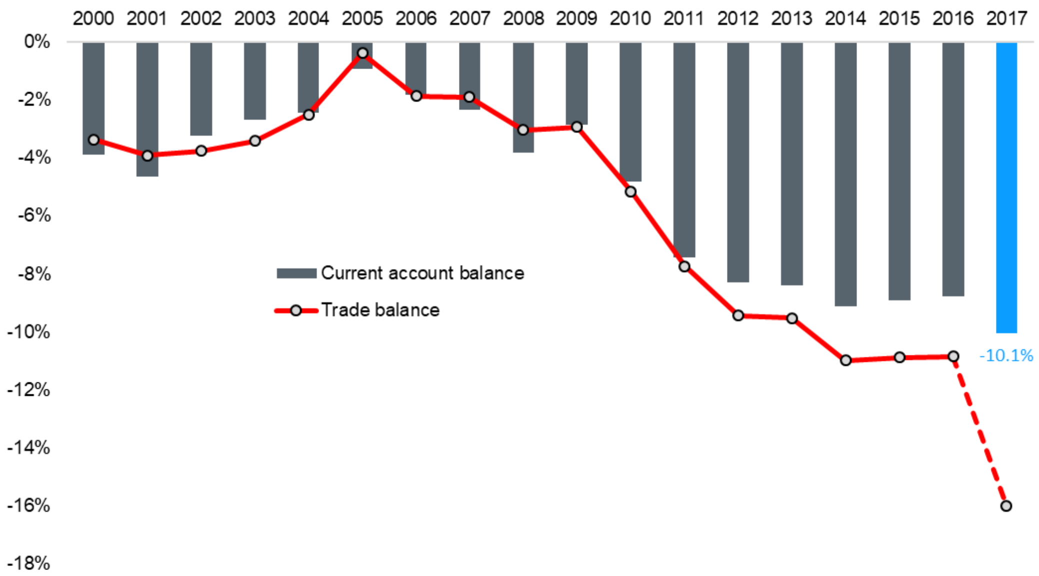


Source: National Institute of Statistics

External imbalances persist, depleting the foreign exchange reserves

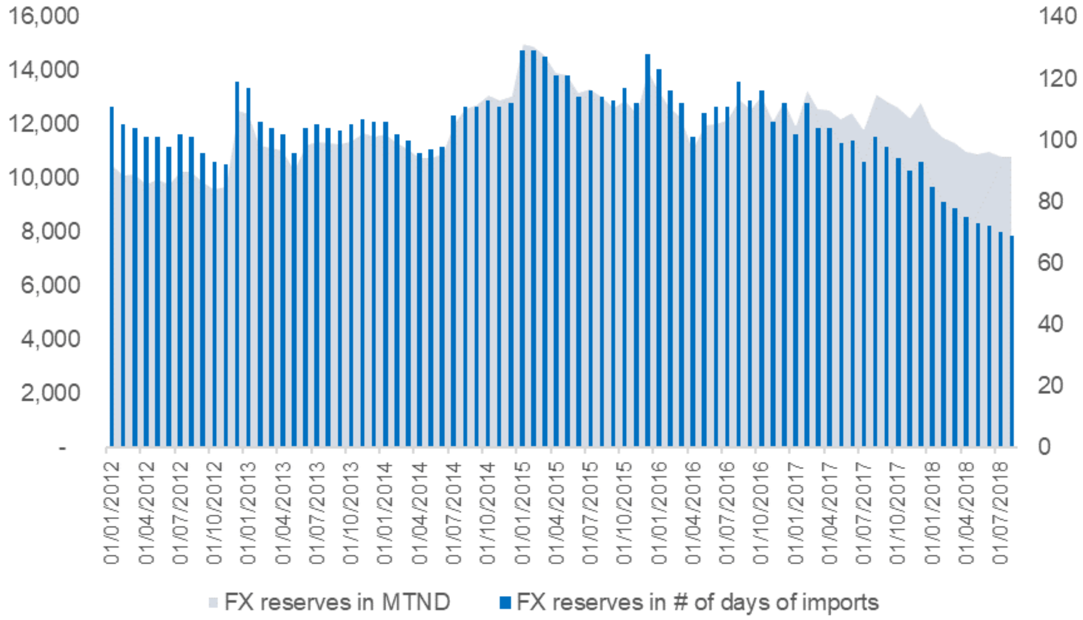
Since 2011, the current account deficit has widened on account of: (1) a worsening energy deficit following reduced domestic energy production because of the maturation of oil fields and reduced exploration during the revolution period; (2) reduced external demand from the EU until last year, a region that accounts for 65 per cent of trade with Tunisia; (3) negative supply shocks in the phosphate mining sector because of labour disruptions and social unrest; and (4) reduced FDI inflows and tourism revenue in the wake of the 2015 terror attacks. These factors drove the current account deficit to 10.1 percent of GDP in 2017 with foreign exchange reserves declining to 69 days of import cover as of August 2018 (less than the critical threshold of 3 months of import cover).

Figure 15. Current account balance and trade balance, as % of GDP



Source: National Institute of Statistics

Figure 16. FX reserves



Source: World Bank

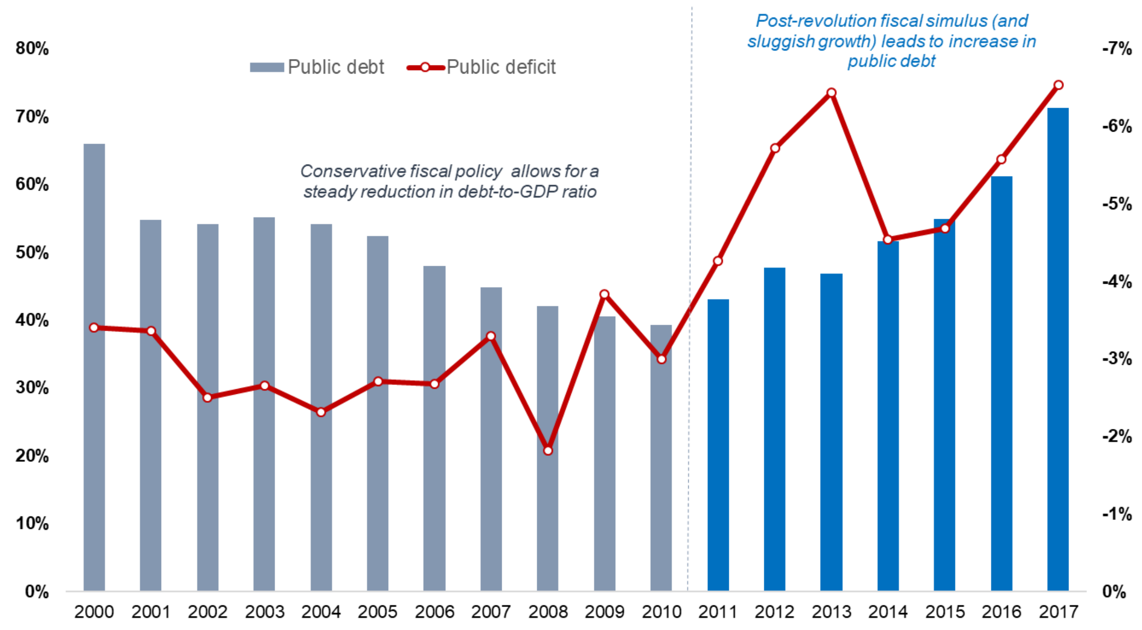
Tunisia's public debt is rapidly rising, but remains sustainable for the time being

Tunisia's public debt has risen sharply in the years following the 2011 revolution. The debt ratio increased from 41 percent of GDP in 2010 to 71 percent of GDP at the end of 2017. Tunisia's elevated fiscal deficits have been one of the main contributors to this increase in government debt alongside adverse foreign-exchange rate dynamics as more than 68 per cent of Tunisia's government debt is denominated in foreign currency.

The external debt which stood at 48.04 percent of the GDP at the end of 2017 comprises multilateral debts (50 percent), bilateral debts (14 per cent) and borrowings from international financial markets (36 per cent). Domestic debt (which represents 21.86 per cent of GDP) is essentially made up of treasury bonds (59 per cent) and deposits at the General Treasury of Tunisia (31 per cent)[62].

[62] Analysis based on IMF data

Figure 17. Public debt and fiscal deficit, as % of GDP



Source: IMF

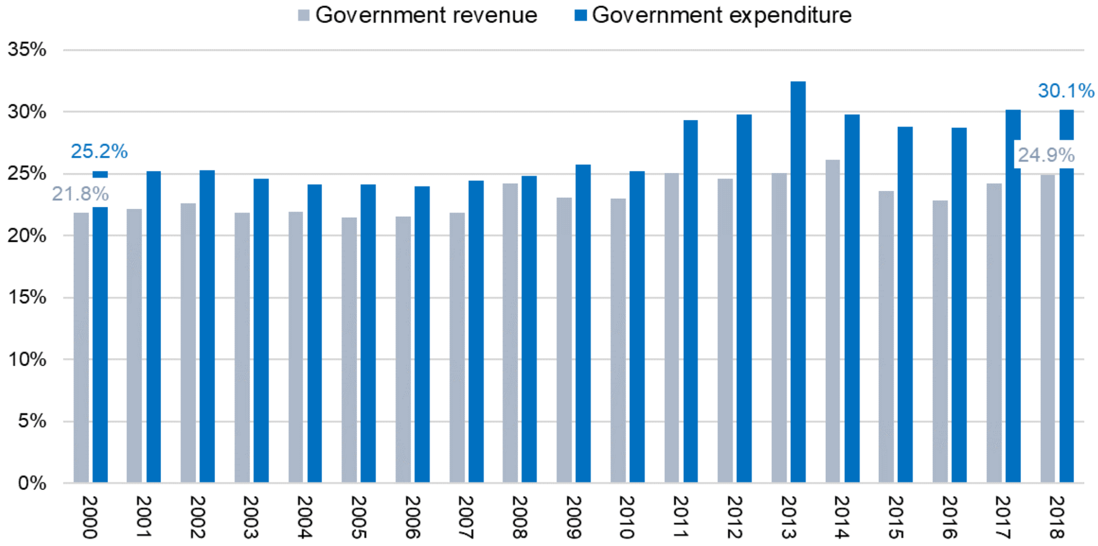
A ballooning budget deficit combined with deteriorating composition of public spending

An increase in public spending in the immediate aftermath of the revolution was followed by some fiscal restraint in 2014 and 2015, although the necessary fiscal consolidation did not materialise 2016 onwards. Moreover, the composition of public spending has deteriorated in recent years as current spending increases are financed by cuts in capital spending, which in turn reduce growth prospects and tax revenues.

The public sector wage bill continues to weigh heavily on public finances, accounting for 2.5 times public investment and almost 15 per cent of GDP in 2017[63]. Employment in the public sector expanded rapidly after the revolution, initially to help reintegrate political prisoners pardoned under the general amnesty in February 2011, but also to give job security to 50,000 workers hired by firms sub-contracting government services, and to reduce unemployment. Between 2011 and 2017, the public sector workforce grew by 200,000, raising the wage bill from 10.8 to 15 per cent of GDP, one of the highest ratios in the world.

[63] Based on IMF data

Figure 18. Government revenue and expenditure, as % of GDP



Source: IMF

Unemployment remains stubbornly high

In the aftermath of the revolution, high unemployment levels have been stubbornly persistent in Tunisia (and ranked among the highest in the region[64]), with the lion's share of the hit being taken by the youth (see Figure 19). Unemployment levels remained high in 2014 in 2015[65], despite some improvements, averaging 15 per cent in 2015. Youth unemployment among persons aged 15-24 averaged 35 per cent, while women unemployment amounted to 22 per cent, in an environment where women labour participation rates are already fairly small (28 per cent in 2014)[66].

[64] During the period 2011-2015 average unemployment in Algeria, Egypt and Jordan was roughly 11%, 13% and respectively 13% (source World Bank)

[65] IMF, 2014. Fourth Review Under The Stand-By Arrangement And Request For Modification Of Performance Criteria

[66] IMF, 2015. Request For An Extension Of The Stand-By Arrangement

Figure 19. Quarterly data on unemployment, Q12013 - Q1 2018

Source: WB

There have been no meaningful changes in 2016 and 2017 when the unemployment remained high. Considerable disparities between interior regions and coastal areas remained largely unchanged with rates in interior region double those of coastal areas[67]. Women and graduates where i.e. approximately 1 out of 5 women and 1 out of 4 eligible graduates still remained without employment[68], were the categories of population most severely affected.

Lack of progress can be explained by, inter alia, structural issues related to skills mismatches between labour force and employers and low level of competition maintained by the protective government's policies with public companies benefiting from subsidies or privileged access to some markets that in turn hampers job creation by private sector. The high influx of job seekers driven by young population and arrival of migrants following the war in Libya have also contributed to the lack of progress. A recent analysis conducted by the IMF showed that approximately 5 years of 5 per cent growth would be needed to slash unemployment by a quarter, whereas between 2010 and 2017 average growth was under 2 per cent.[69]

Inflation

During 2014 and 2015 inflation has been fairly well contained (see Figure 20) with some occasional upshots such as one during the second half of 2014 driven by increase in prices of food and beverages[70]. The price index followed then a reverse trend from

[67] IMF, 2017. 2017 Article Iv Consultation, Second Review Under The Extended Fund Facility, And Request For Waivers Of Nonobservance Of Performance Criteria, And Rephasing Of Access

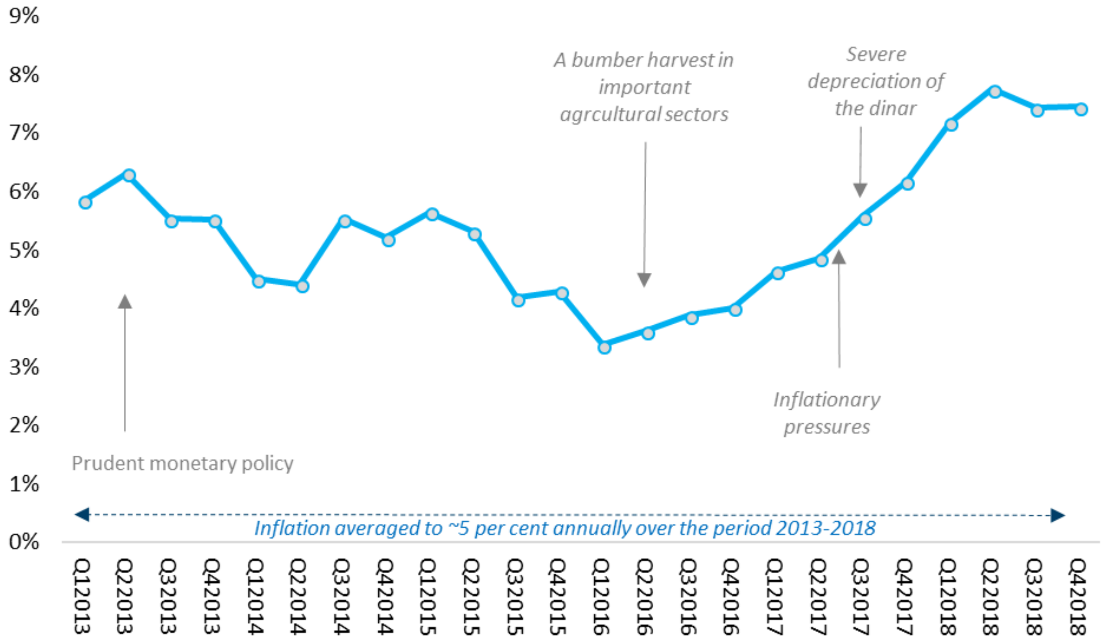
[68] IMF, 2017. 2017 Article Iv Consultation, Second Review Under The Extended Fund Facility, And Request For Waivers Of Nonobservance Of Performance Criteria, And Rephasing Of Access

[69] IMF 2017. 2017 Article Iv Consultation, Second Review Under The Extended Fund Facility, And Request For Waivers Of Non-observance Of Performance Criteria, And Rephrasing Of Access

[70] IMF, 2014. Fourth Review Under the Stand-By Arrangement And Request For Modification Of Performance Criteria

around Q2 2015 when food and beverage prices fell and the tightened monetary policy further compressed the price index[71].

Figure 20. Quarterly data on inflation



Source: National Institute of Statistics

The weak economy and a favourable season for strategic agricultural sector have kept the CPI under 4 per cent throughout 2016, albeit inflationary pressures kicked in already in Q1 of this year and continued throughout 2017[72]. A substantial import share in the consumption basket, rising oil prices, exchange rate depreciations (10 percent real effective exchange rate depreciation of the dinar in 2017), wage hikes in the public and private sector have all contributed to the build-up of inflationary pressures[73].

Pressured by the continue and robust growth in prices in 2017, the Central Bank has committed to lowering inflation by means of key rate increases. The policy interest rate was increased by a cumulative 75 bps in April and May 2017 to 5 percent.

Vulnerabilities in the banking sector reduced to some extent

The banking sector remained vulnerable in the post-Revolution period and this did not change markedly throughout 2014 and 2015. Some key reasons included:

- Weak asset quality with non-performing loans (NPLs) reaching 15.8 percent of total loans in March 2015[74];
- A capital adequacy ratio of 9.5 per cent as of March 2015 being below the minimum regulatory requirement (10 per cent);

[71] IMF, 2015. Request for an Extension Of The Stand-By Arrangement

[72] IMF, 2016. Request For An Extended Arrangement Under The Extended Fund Facility

[73] IMF, 2017. 2017 Article Iv Consultation, Second Review Under The Extended Fund Facility, And Request For Waivers Of No observance Of Performance Criteria, And Rephrasing Of Access

[74] NPLs for tourism sector were significantly above the average for the whole economy

- Continued dependence on CBT refinancing[75][76]

Liquidity in the banking sector remained a material issue since the beginning of the revolution, and the problem continued during 2014 and 2015, in particular for public banks that saw low growth in deposits. Banks continued to show a high demand for government financing, which partially led to a disproportionate use of the central bank refinancing facilities. In addition, the profitability of the banking sector has been rather low (particularly for public banks) due to the number of NPLs severely affecting net banking income. Return on equity was 11.2 per cent and 10.9 per cent in 2014, respectively 2015. The net interest margin to net banking product (PNB) amounted to 57.2 per cent in 2014 and 54.6 per cent in 2015.

During 2016 and 2017 some progress was made in addressing some of the core issues. Restructuration of the public banks sped up, and some changes were made in the governance framework (the unification of rules for public and private banks and modification in management/Boards of banks). Regulations on loan classification, provisioning and liquidity, bank design reporting and the development of a bank rating system represent further areas in which advances have been made during this period. Credit growth was moderate in 2016 (about 10 per cent at the end of the year), followed by a more rapid trend of growth in 2017. Continued depreciation of dinar had a limited impact on banks given their low forex exposure.

Nonetheless, despite material progress made, certain vulnerabilities have persisted including low liquidity[77][78] and sizable portfolio of NPLs, especially for public banks.

6.1.2 Step 2: Assessing of the role and contribution of MFA (and IMF) to observed outcomes

This section provides an outline of the likely counterfactual scenarios in the absence of the MFA (Alternative 1) as well as in the absence of both, the MFA and the IMF support (Alternative 2). It is based on:

- Literature review covering IMF reviews, ECFIN documents relating to the operation and other grey material on economic developments in Tunisia during the period of interest;
- Trend analysis of macroeconomic data;
- Scoping interviews with key DG ECFIN officials involved in design and implementation of the operation;
- Discussions with the Steering Group that took place during the kick-off and Inception meetings in Brussels;
- Video/teleconferences with the representatives of the IMF and WB who were involved in the design of IMF and WB programs;
- Semi-structured interviews that took place during the first and second mission to Tunisia that took place between January 29th and February 1st and March 26th and 29th respectively, and complemented by the series of follow-up phone interviews after it;

[75] IMF, 2014. Fourth review under the stand-by arrangement and request for modification of performance criteria.

[76] IMF, 2015. Request for an extension of the stand-by arrangement.

[77] IMF, 2016. Request For An Extended Arrangement Under The Extended Fund Facility

[78] IMF, 2017. 2017 Article Iv Consultation, Second Review Under The Extended Fund Facility, And Request For Waivers Of Nonobservance Of Performance Criteria, And Rephasing Of Access

- Brainstorming session with the key inputs from the local economic expert that took place on February 6th;
- Insights gathered from the focus group with Tunisian NGOs that took place during the second mission to Tunisia between March 26th and March 29th; and,
- Results from two rounds of Delphi survey.

In regards to the Alternative 1, the analysis allowed to distil few most plausible counterfactual scenarios, even though there were still some evidence that did not fully corroborate (i.e. plausibility of fiscal adjustment under Alternative 1 in view of some IMF and DG ECFIN staff *versus* views expressed by other stakeholders/evidence stemming from the data analysis). However, the results of the analysis underpinning Alternative 2 are far less conclusive and bear high degree of uncertainty. Overall, it seems also plausible that for Alternative 2 specifically, certain options would not have been mutually exclusive.

Importantly, while considering the hypothetical options to Alternative 1 (and in similar fashion for Alternative 2), one should bear in mind that its absence would in practice mean the absence of circa EUR 100 mln *per year* given the actual disbursements' dates and the reality of the budgetary cycle, as oppose to EUR 300 mln needed to be replaced entirely in *one particular* year. This introduces a more nuanced argument that takes into account certain ability of the Ministry of Finance to smoothen some one-off falls in revenue over the longer timespan, such as absence of the MFA.

6.1.2.1 Alternative 1: no MFA - the counterfactual position

Overall, the analysis of the counterfactual scenarios under Alternative 1 pointed fairly firmly to the international financial markets as the most plausible source of financing had MFA I not been provided. While tapping on the domestic market would have been also possible, the option of raising money abroad had more advantages. Ergo, the remaining options of some support from bilateral donors and fiscal adjustment became less relevant given their comparative disadvantages.

The difference in the cost of the MFA loan versus the one that could have been obtained from the international financial markets would not have been small and oscillated around EUR 110 mln accrued over 15 years. From the debt sustainability perspective, because the MFA was relatively small, this increase in debt would not have been large enough to drastically change the evolution of the debt burden indicators. In terms of the impact on the real economy, the most commonly chosen implication of the absence of the MFA, according to the Delphi survey respondents, would have been *slightly* lower real GDP growth than the levels actually observed over the period 2015-2017.

Figure 23 presents the table with some subjective probabilities attached to each of the counterfactual scenarios considered under Alternative 1. Figure 24 in turn summarises the results of the analysis under this alternative and presents a stylised diagram capturing all key possible alternative sources of finance had MFA I been absent.

Discussion that follows examines in more detail the possibilities for attracting additional finance from IFIs, financial markets (domestic and international), bilateral donors and finally through fiscal adjustment.

Increased assistance from other IFIs

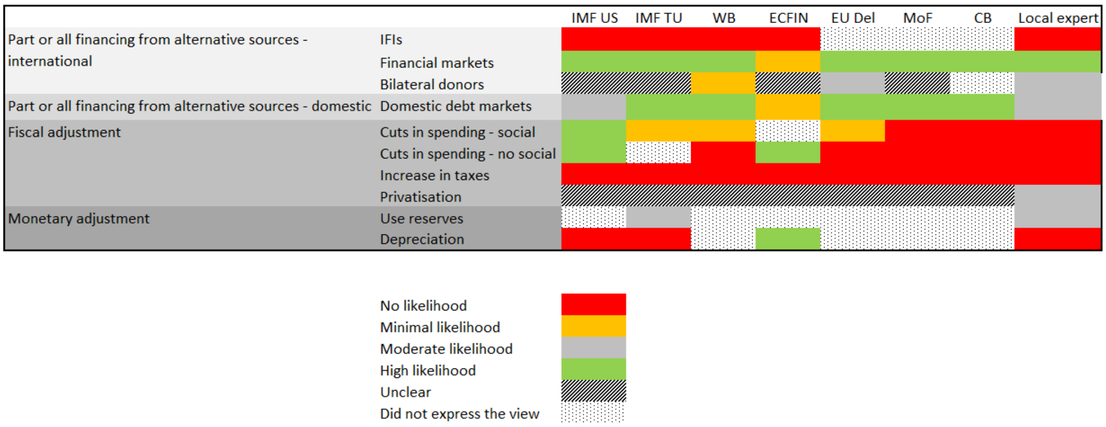
The desk research and the interviews revealed that the international donors had been gradually approaching their exposure limits in the run up to 2018 with African Development Bank reaching it as the first IFI, and the WB approaching the limit of its fire-power more recently.

The IMF officials firmly rejected the possibility of increasing the size of the Fund's assistance in the absence of the MFA. What would have been potentially feasible in their view though, would be potentially an adjustment of some indicators i.e. fiscal indicators, or reserves' target.

More generally, the propensity of IFIs to step up their commitment is also a function of existing alternatives. And here, unlike for some past MFA operations, there seemed to be some leeway (see further options discussed below).

Figure 21 presents the summary on the judgment of the key interviewed stakeholders regarding the possibility of increased assistance from IFIs (and other sources discussed further in this section).

Figure 21. Views of interviewed stakeholders – likelihood of the financing alternatives



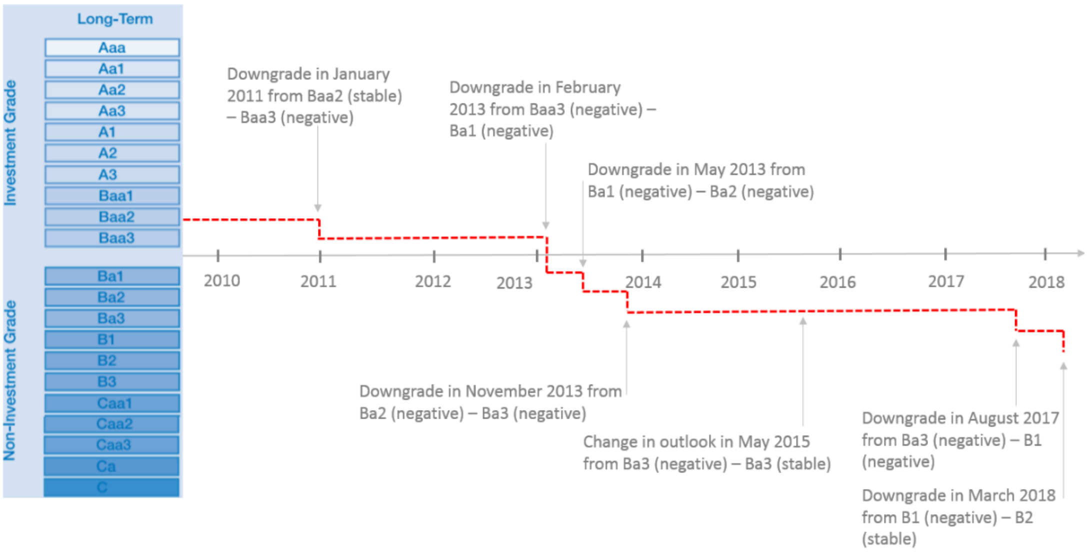
Source: interviews conducted by the ICF team

Accessing international financial markets

The evidence base gathered during the study suggests raising additional financing (to replace MFA) from the international financial markets, especially in 2015, would have been one of the most plausible alternatives that the authorities could have conceived. In this respect, there are several specific considerations.

It is true that Tunisia's sovereign ratings followed steadily a regressive path since the Revolution (see Figure 22). Yet, the period between late 2013 and late 2017 saw a relative stabilisation with no downgrades and therefore the possibility of markets being spooked by the announcement of Moody's was limited.

Figure 22. Tunisia's sovereign rating, 2010-2018



Source: Moody's ratings, adapted by ICF

In addition, Tunisia did have in fact the access to the international financial markets in 2015, 2016 and 2017 respectively, the three years' interval that is most relevant for our analysis. The issuance in January 2015 was oversubscribed by 400 per cent, also on the back of markets being reassured after peaceful elections. Furthermore, the latest issuance that took place in October 2018 (USD 570 mln) was also oversubscribed, this time by ~140 per cent, albeit the financing conditions were already tighter in 2018 which was reflected in relatively high interest rate (Table 10)[79].

Table 10. Tunisia activity on the international financial markets, 2015-2017

	Date of issuance	Amount	Interest rate	Maturity
Unassisted debt sale	January 2015	USD 1 bln	5.87%	10 years
Debt emission guaranteed by the US	August 2016	USD 500 mln	1.41%	5 Years
Eurobonds	February 2017	EUR 850 mln	5.62%	7 years
Eurobonds	October 2018	EUR 500 mln	6.75%	1 year

Source: Ministry of Finance, avalable at : http://www.finances.gov.tn/index.php?option=com_content&view=article&id=53&Itemid=325&lang=fr

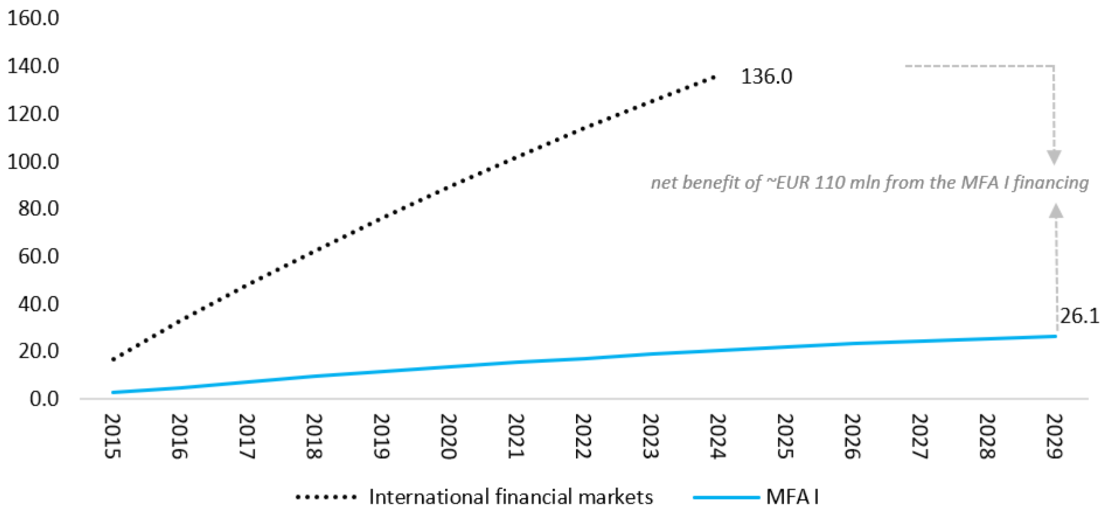
Generally, the debt issuance on the international markets implies some concerted effort to originate, structure and execute such operation, as well as material fees including the brokerage fees from investment banks. Therefore, it is rather the top-up of the amount of debt already issued in January 2015 and/or February 2017, than a new placement on

[79] https://www.ecofinagency.com/public-management/2510-39147-tunisia-raises-570-million-via-eurobond-at-6-75-interest-rate

the market, that could be reasonably expected[80]. Also, unlike rising the funding corresponding to the MFA from the domestic market (discussion below), the advantage of the international markets was the currency in which missing monies could have been raised[81] (allowing to address the BoP issues) and no risk of crowding out of domestic investors (albeit forex risk would have been introduced).

With the exception of DG ECFIN staff, the key interviewed stakeholders perceived this option as highly likely, even though they emphasised some relative disadvantages compared to the MFA financing i.e. substantially higher interest rates and shorter maturity. For illustrative purpose, Table 11 shows the difference in the net cost debt servicing between MFA and international markets.

Table 11. Alterative 1 – net cost of debt servicing from the MFA I versus international financial markets, in EUR mln and in PV terms



Source: ICF calculations based on DG ECFIN data

Note: (A) for the MFA, the following interest rates and maturities for each tranche were used: 1st [0.49% and 12 years], 2nd [0.89% and 14 years], 3rd [1.25% and 15 years]. (B) for the financing from the international financial markets it was assumed that EUR 300 mln loan would have been obtained for the interest rate of 5.87% and maturity of 10 years [identical to the terms of the loan secured by Tunisia in January 2015 – see Table 7.1]. (C) the discount factor used for present value calculation: 5%, in line with standard IMF approach.

More than two thirds of the Delphi survey respondents reckoned that issuing bonds on the international financial markets would have been likely/ very likely.

Accessing domestic debt market

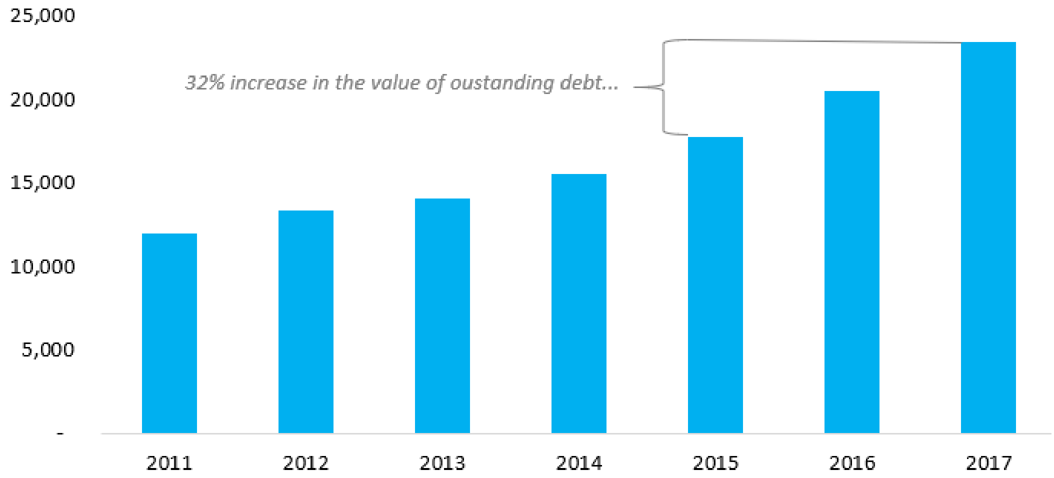
Apart from accessing international financial markets, rising the funding from the domestic debt market has been the second most likely alternative to the absence of the MFA, in view of the key interviewed stakeholders (see Figure 21).

And indeed, the government was rising a substantial amount of funding. Between 2015 and 2017 the outstanding debt rose by 32 per cent from TND 17.7 billion to TND 23.4 billion.

[80] Under assumption that the MFA operation would have been off the table by late 2014 (not later)

[81] Although the forex risk is also relevant

Table 12. Outstanding domestic debt, in TDN million, 2011-2017



Source: Central Bank of Tunisia

Nonetheless, the terms would have been less favourable compared to MFA:

- Higher cost of borrowing: the cost of seeking financing from the domestic market would have been less favourable. For instance, for 2017 the implicit interest rates were 6.7 percent on domestic debt (1.4 percent in real terms);[82]
- Shorter maturities: domestic debt would have had much shorter maturity as compared to MFA I (and those offered by international investors).

Furthermore, the domestic market in Tunisia has been still relatively underdeveloped and shallow. Higher absorption among domestic banks and insurance companies (main investors in domestic bonds and t-bills) could have resulted in some crowding out effect, an issue that the authorities were well aware of[83]. Also, unlike for the option of international financial markets – the draw back here is that it would not have alleviated the balance of payment problem faced by the country.

About two thirds of Delphi respondents reckoned that issuing t-bills/ treasury bonds on the domestic market would have been likely or very likely, had MFA I not been available.

Bilateral donors

There was relatively less clarity regarding this option, and some key stakeholders such as Ministry of Finance and the IMF were reluctant to speculate/ did not have a clear view on the plausibility of this option.

In essence, three countries could have been considered for this option namely, Algeria, Saudi Arabia and Qatar.

The political relationship with Algeria has been typically warm and the country did provide budget support to Tunisia in 2015 in the form of USD 50 million grant and USD 100 million loan in March and August 2015 respectively. Furthermore, in April 2017 Qatar purchased USD 1 bln of Tunisian debt *via* private placement[84] with 5 years maturity and

[82] IMF, CR March 2018

[83] View expressed, inter alia, by local economic experts

[84] http://www.finances.gov.tn/index.php?option=com_content&view=article&id=53&Itemid=325&lang=fr

yield of 3.5 per cent, while in October 2018 Tunisia borrowed USD 500 mln from Saudi Arabia[85].

Yet, the interviews with local stakeholders (WB, IMF, EU Delegation and Central Bank) revealed that Tunisian government has been historically reluctant to resort to Saudi Arabia and Qatar for financial assistance given political considerations[86] and obscurity around the conditions/ strings attached to such financing[87], even though this has somehow changed most recently. Fiscal and balance of payment pressures that were building up were, however, severe enough to push Tunisia to eventually seek the financing from both countries.

Overall, since the access to international financial markets would have been the most plausibly option, it was assumed the authorities would not have had to complement it by funding from the bilateral donors.

Interestingly, nearly two thirds of Delphi survey respondents was of a view that the assistance from Algeria, Qatar or Saudi Arabia replacing the absent MFA I would have been highly unlikely.

Fiscal adjustment

Apart from the views expressed by the IMF staff based in the US and to some extent DG ECFIN, there was some consensus that fiscal adjustment in the form of cuts in expenditures would have been highly unlikely, in most cases referring to the very fragile and tense socio-political situation and insufficient political capital of the government to resort to this sensitive option. Insights from the focus group also confirmed that subsequent governments would have had little leverage to respond with unpopular measures involving cuts.

In fact, what the public finance data from 2016 and 2017 indicates is the clear fiscal expansion driven, inter alia, by hefty increase of 12 per cent and 8 per cent in public wage bill in 2016 and 2017 respectively, partly reflecting a very strong pressure exercised on the government (i.e. by influential trade unions), and despite an effort of donors (in particular the IMF), to contain the fiscal deficit. In this context, it seems very probable that the government would not have cut *social* spending. Other options, including cuts in non-social spending were also very limited. For instance, capital expenditure in 2015-2017 were already at the lower level than in 2014 (~22 per cent versus 23 per cent of GDP) of which public investment has been already very modest accounting for mere ~5 per cent of GDP in 2015-2017. Besides, the urgent need to increase the gross fixed capital formation has been one of the top objectives on the donors' reform agendas.

On the revenue side, increases in tax rates seemed to be largely off consideration, even though there has been a major push to increase the tax base in Tunisia. The latter has faced much resistance (i.e. *regime forfaitaire*) and is also closely linked to efficient tax administration that is a more complex and longer-term type of objective, not only in Tunisia. More generally, social and political climate was not conducive for increase in

[85] http://english.alarabiya.net/en/News/north-africa/2018/11/29/Saudi-Arabia-pledges-500-mln-finance-projects-for-Tunisia.html

[86] Qatar authorities maintained the close relations with the main conservative party Ennahdha in Tunisia while Saudi Arabia has been supporting other religiously conservative groups in the region – an important consideration for the Tunisian authorities keen to maintain the neutral stance.

[87] For instance, even IMF, as the principal creditor of the government, does not have satisfactory clarity on the conditions attached to Qatari and Saudi financing that came in 2017 and 2018.

taxes and privatization, another potential source of revenue. No evidence, including the interviewees, suggested the increase in arrears neither.

In terms of the monetary adjustment, there have been no evidence suggesting that the authorities could have resorted to this option given a relatively small size of the gap that would have been caused by the absence of the MFA against normally a far-reaching implication of the changes in the base rate/ money market intervention, and some inflationary pressures arising from early 2016 onwards (see Figure 20).

More fundamentally, as for IFIs, the authorities' propensity to embark on the option of fiscal adjustment would have been a function of other option(s) being available as well, and as discussed above, the authorities had a comfort of some choice here.

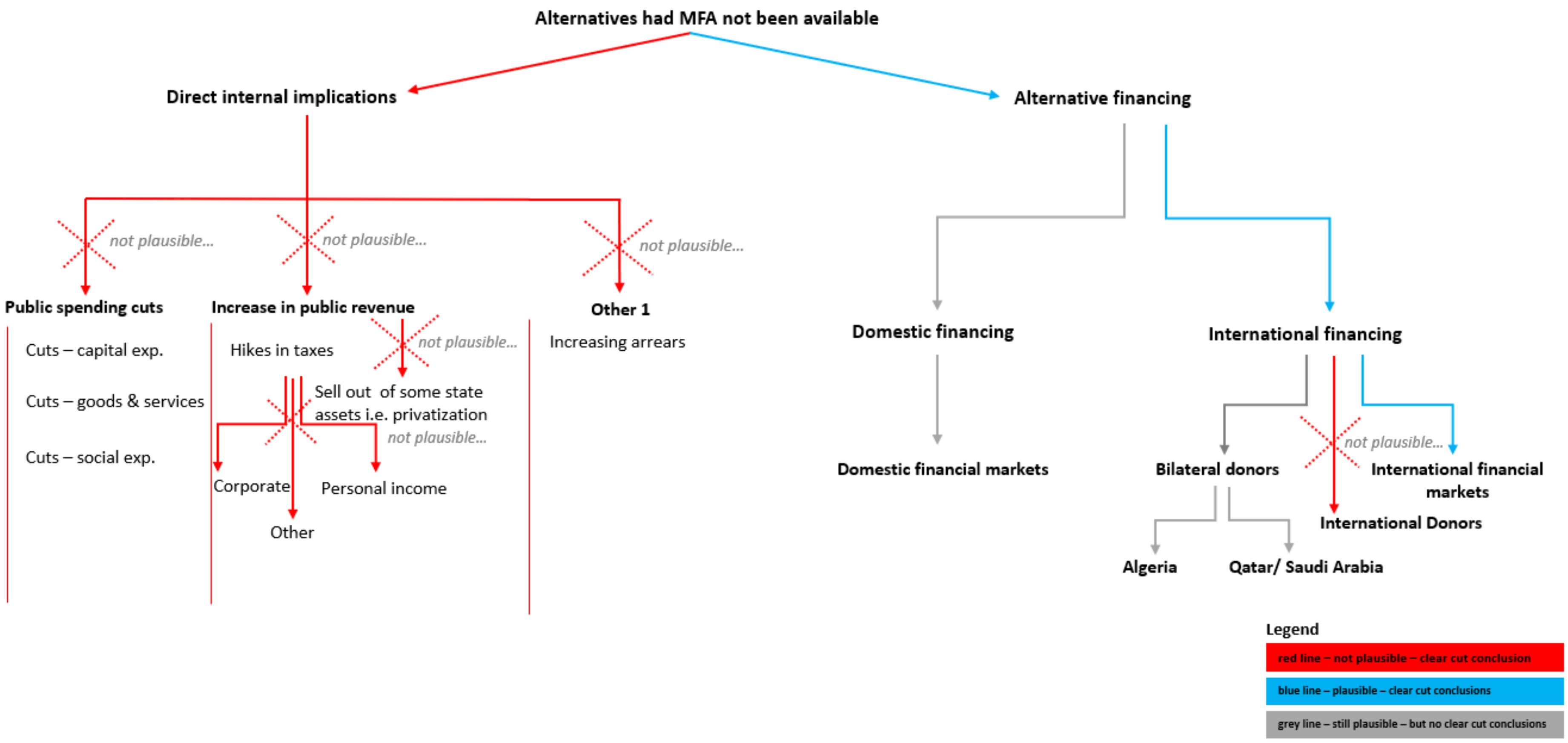
Figure 23. Counterfactual scenarios – assessment for Alternative I

Alternative 1: had not MFA been available	Likelihood of a given scenario			
Counterfactual 1: financing from Algeria			●	
Counterfactual 2: financing from Qatar			●	
Counterfactual 3: financing from Saudi Arabia			●	
Counterfactual 4: greater commitment from the WB, AfDB and/or IMF				●
Counterfactual 5: alternative financing from the international markets	●			
Counterfactual 6: alternative financing from the domestic market		●		
Counterfactual 7: public cuts and/or revenue increase				●

● *No likelihood* ● *Minimal likelihood* ● *Moderate likelihood* ● *High likelihood* ● *To be still established*

Source: ICF

Figure 24. Summary – alternative scenarios for obtaining financing had MFA I not been available (but with IMF support continuing)



Source: ICF

6.1.2.2 Alternative 2: no MFA and IMF - the counterfactual position

The combined absence of the IMF and MFA I assistance corresponded to EUR 461 mln, EUR 278 mln and EUR 378 mln in 2015, 2016 and 2017 respectively, or circa 1.3, 0.8 and 1.1 per cent of GDP in these three consecutive years.

Yet, the absence of the IMF would have most likely affected the financing provided by other donors too given the 'catalytic effect' of the IMF involvement. More specifically, given that the absence of the IMF program would have had affected negatively the stability of the macroeconomic framework of the country, an element that is closely considered by the WB and AfDB prior to their involvement, the absence of the IMF would have possibly led to the absence of the budget support operations provided by the WB and AfDB too.

Consequently, if the combined assistance of the MFA I, IMF SBA/EFF, WB and AfDB programs had not materialised, this would have resulted in the absence of EUR 1099 mln, EUR 726 mln and EUR 835 mln in 2015, 2016 and 2017 respectively, or circa 3.1, 2.1 and 2.5 per cent of GDP in these three consecutive years.

Leaving aside the plausible policy response(s) to such shock, it is certain that the absence of the international donors would have severely impacted the business, consumers and investors' confidence as well as the yields received by Tunisian government on the domestic/ international markets making the cost of servicing debt even more expensive/ constraining at least partially access to these markets. In parallel, absence of the MFA and IMF (and other donors) would have most likely resulted in the downgrades of the Tunisia's sovereign ratings[88].

In terms of potential options that the government could have resorted to, there has been no consensus among stakeholders, some refrained from 'speculating' about the most plausible course of action given how significant would such blow have been and number of interconnected implications could it have had. Generally, this alternative bears very high risk of uncertainty and should be interpreted with caution.

Still, for illustrative purposes, we have arrived with one set of potential options that was assessed as sensible by the local economic experts and some donors, and corroborates broadly with other type of evidence i.e. macro-economic data. More specifically, it may be potentially assumed that in view of the absence of the MFA and IMF (and other donors), they authorities would have: (i) increased borrowing from international markets in 2015, (ii) sought bilateral assistance from Qatar/ Saudi Arabia, and (iii) embarked on rather modest cuts of investment (0.1-0.3 per cent of GDP pa between 2015-2017).

Box 5. Key considerations under selected scenario

- The authorities could have issued more debts as part of their emission of debt in Jan 2015 (USD 1 bln)
    - Here, it is crucial when authorities would have decided not to accept the conditions of the IMF program. Here, one possibility could be that the Tunisian authorities would have anticipated in advance that the last review of the SBA and the new EFF would not have taken place, and borrow from international markets *pre-emptively*, before markets would have gotten spooked. Ergo, if the authorities had made it in late 2014, they could have topped up the emission of bonds that took place in January 2015 (USD 1 billion) and that was

[88] Reviewed Moody's communication underpinning the ratings explicitly mention the critical role of the IMF including its discipling role in terms of implementing sustainable fiscal policies.

400% oversubscribed suggesting the high demand back in the time.

- The gap resulting in the absence of MFA and IMF (and WB and AfDB) would have been very sizable though and tapping onto international markets may not have been sufficient. Bilateral assistance from Qatar and/or Saudi Arabia, which in fact came in 2017/2018, would have become therefore a necessity for the authorities at much earlier stage.
- Fiscal adjustment
  - Some cuts in public investment could have taken place, albeit modest
    - Capital expenditures were already 'cut to the bone' with public investment falling below 5 per cent in 2014-2016;
    - Also, capital expenditures in Tunisia have been also used as a mean to address the widening gap between interior and coastal regions, a major structural issue in Tunisia. Some of this investment resembles a welfare spending rather than conventional capex with large spending on fixed assets. In this context, it would have been even more difficult to find some substantial space for cuts.
- Social expenditures including public wages would not have been affected due to potentially huge resistance from UGTT, fragile social situation, and thin political capital of the subsequent governments that would not permit to push for socially controversial measures.

The economic implications of such scenario would be severe, and of a long-term nature. Greater exposure to foreign international markets would have affected the debt sustainability given higher interest rates and shorter maturities compared to the donors' assistance. This in turn would have left less room for orderly adjustment normally allowed by more concessionary lending. In addition, bigger loans from Qatar and Saudi Arabia would have come at the cost of some much undesirable political ties. Furthermore, absence of combined donors' reform packages would have certainly translated into very meaningful loss in reform progress.

6.2 Part 2: Effectiveness of structural reforms

The following section provides the information on the framework used to assess the effectiveness of the MFA induced reforms (sub-section 6.2.1) and the results from this assessment (sub-section 6.2.2).

6.2.1 Analytical framework

The following issues were taken into consideration when analysing the effectiveness of the MFA conditions:

- The action(s) taken by the Tunisian authorities to fulfil the conditionality;
- Any evidence of implementation deficit i.e. the difference between de jure and de facto reform;
- Relevance and importance of the MFA promoted reform;
- The level of ownership of the programme and the capacity of the authorities to implement it;
- Role of MFA contribution to the reform progress;
- Observed or expected short term benefits of the reform;

- Evidence for actual or expected impact of reforms (both direct and indirect).

The analysis presented below is based on documentary and literature review as well as stakeholder interviews, analysis of two reforms areas that are the subject of case studies (tax reforms, SSN reforms) and the insights gathered during the focus group.

6.2.2 Assessment of the effectiveness of MFA conditionality

The Table 13 to Table 21 provide a detailed assessment of individual conditions using the analytical framework presented above. The key summary findings that can be drawn from that analysis for each main area are presented below.

Generally, a common theme that emerged from the analysis is that most reforms have been successful and fulfilled in the narrow sense, as defined by the text of the condition, and that in certain cases some tangible progress on the ground have been made i.e. reforms related to the law on the Central Bank or the limited tightening of the eligibility criteria for régime forfaitaire. However, there were also two conditions where the assessment of effectiveness is more ambiguous. While there was the completion of intermediary steps/ progress at the technical level related to SSN reform concerning the establishment of a unified database and targeting system based on a single Social Identification Number and some advancement related to the approximation of normes homologuées to the EU acquis, in the former case the database is still not in place and in the latter the approximation was only limited resulting subsequently in granting of the waiver.

It should be also noted that overall level of ambitiousness of the MFA conditionality package (also compared to many past MFA operations) was high, and so was the benchmark for their effectiveness. This should be therefore bore in mind when making an overall judgment on the most challenging conditions.

6.2.2.1 Tax reform

The Tunisian authorities took the necessary action to fulfil the conditionality and adopted the decree 2014-2939 excluding the access to the régime forfaitaire for 70 specific activities from industrial, commercial and services sectors located in the urban areas. Therefore, in the scope defined by the condition, some progress in curtailing the eligibility criteria was made (see Table 13).

More generally though, this reform has delivered only limited tangible benefits so far. The number of legal entities and individuals benefitting from régime forfaitaire has been increasing significantly over the recent years from 318,000 in 2011 to 421,000 in 2018. In the same vein, the fiscal revenue from the taxpayers under régime forfaitaire has been also on the rise since 2013, an indication of a continuous avoidance of the standard rates by increasing number of taxpayers.

According to some estimates of the Ministry of Finance and the independent tax experts,[89] around 60-70 per cent of current taxpayers under régime forfaitaire are de facto not eligible to it as their annual turnover exceeds statutory TND 100,000. The foregone fiscal revenue due to this abuse is gauged to be in the range of at least 0.1-0.2 per cent of GDP. There is also a persisting perception about the unfairness of the régime forfaitaire it its current form.

[89] Tax experts involved in USAID technical assistance 'Tunisia First' focusing on the rationalisation of the tax policy and modernisation of the tax administration

Stakeholder interviews suggest also that there is currently little political willingness to push this reform, also due to the strong vested interests resisting any changes and the weak tax administration apparatus.

Overall, it seems that the EU added value of this reform has been positive, albeit only marginally given the very limited progress achieved so far. Successful overhaul of the régime forfaitaire, however, is a long-term reform which hinges on the very substantial improvement of the tax administration in Tunisia.

6.2.2.2 Social Safety Net reforms

Although there was initially domestic ownership of the reform, there were considerable delays in launching of the survey underpinning the database due to, inter alia, capacity constraints and data protection issues (see Table 14). The World Bank has been a crucial donor providing the technical assistance for the survey and the subsequent database.

Both, the launching of the survey and the development of the database were still ongoing at the time of writing this report. Also, major political decisions are still expected in order to move away from untargeted subsidies and effectively improve targeting of the PNAFN whose firepower has indeed increased over the course of the MFA operation.

The launch of the special survey of PNAFN beneficiaries and subsequent establishing of a unified database and targeting system based on a single Social Identification Number to which Action 2 of the MFA condition contributed was next to the trade reform (approximation of *normes homologuées* with the EU aquis), the most technically complex and logistically challenging reform.

6.2.2.3 Public Finance Management reform

The draft organic law on the CdC was adopted by the Government and transmitted to Parliament on 16 June 2016 (Draft Law #38-2016) resulting in the fulfilment of the condition. The ultimate intention of the reform - the strengthening the external audit of public accounts and ensure the financial independence of the CdC by adoption of the appropriate law was not materialise only until April 16th 2019 when the Organic Law of Cour des Comptes was adopted by the Parliament.

6.2.2.4 Financial Sector reform

Financial sector reforms represent an area of high domestic ownership. Nonetheless, MFA cross-conditionality with the IMF programmes served to reinforce commitment and thus, speed up the implementation of these reforms. The two MFA conditions were implemented in a timely manner.

In April 2016, Tunisia's Parliament, approved a law giving the Central Bank greater independence from government. Under the new law, the Banque Centrale de Tunisie (BCT) will have full control over monetary policy, including the money supply and interest rates. The pre-revolution regime always dictated the Central Bank's monetary policy and post-revolution governments have sometimes tried to do the same[90]. The new law however, does not make the BCT totally immune from political interference; under an amendment, the BCT is still accountable to parliament for "*the achievement of its objectives*", although how this will be enforced is unclear. It can also be investigated by Parliament in cases of suspected wrongdoing. Nevertheless, despite these caveats the new law will make it much harder for the government to overrule the BCT. There is

[90] In 2012, for example, the BCT and the government clashed when the former wanted to restrain inflation and protect the value of the national currency, the dinar, by lifting the interest rate while the latter wanted an interest-rate reduction to stimulate the economy and create jobs. In the fallout the then governor of the BCT, Mustapha Kamel Nabli, was sacked. Source: the Economist

already evidence of the benefits of improved independence of the Central Bank. For example, the Central Bank governor has been able to raise interest rate several times to counter inflation and limit the government's use of deficit financing.

And while progresses have been made in enhancing bank resolution framework and governance of the banking sector, Standard & Poor's[91] highlights the need for further structural reforms such as:

- Regulations that are more write-off friendly, especially for legacy loans to support support bad loan reduction. It is understood that the project to create a government-sponsored asset-management company (AMC) to relieve banks of problem loans was abandoned by the government, due to hostility from stakeholders such as the tourism union (Fédéderation Tunisienne de l'Hotellerie);
- A tightening of banking supervision, classification, and provisioning requirements of NPLs to support asset quality.

6.2.2.5 Public Statistics reform

The Code of Conduct consistent with the United Nations Fundamental Principles of Official Statistics and the European Statistics Code of Practice was adopted on 30 September 2015 through a ministerial decree issued by the Ministry of Development Investment and International Cooperation.[92] There were some minor delays in the implementation of this condition stemming from the protracted discussions between the INS and National Statistical Council on the drafts of the Chart.

Apart from the MFA, there was also IMF that included aspects related to independence of the public statistics in one of its structural benchmarks while PAR 4 conditionality focused on the new law on public statistics that has been discussed since the last few years. Therefore, the MFA seemed to help at the margin and possibly accelerated the adoption of the Code, but it is still plausible that the authorities would have done it anyway.

The Code addresses the aspects such as independence of public statistics. While the officials from the INS have not observed any major actions of the government that would seek to undermine its independence and see the Code as a helpful development[93], it is only the new draft law on public statistics that would replace the old one from 1999 and introduce appropriate and much needed provisions including the concept of 'official statistics', professional independence of the INS staff or some clearer alignment of the increasing data production responsibilities of the INS with the minimum funding that follows. Though, it is unlikely that the law will be passed before the upcoming elections in 2019.

Leaving aside the aspects related to the legal framework of public statistics in Tunisia, several stakeholders including the IMF and the INS itself stressed that the Institute has been facing very significant financial and human resource pressures. For instance, while in 2010 the INS had 74 statistical engineers, this number shrank to 45 in 2018[94] largely due to increasing workload and uncompetitive salaries for statistical experts who have

[91] S&P (2017) Ambitious Reform Is Key To The Revival Of The Tunisian Banking Sector, December 2017.

[92] IMF, 2015. Report on mission to Tunisia: review of compliance with conditions for 2 tranche of MFA and possible further MFA

[93] They reported though some incidents of individual members of the Parliament undermining publicly the robustness of the methodology used by INS for the production of statistics

[94] At the same time the total employment in NIS increased from 400 in 2010 to 1000 in 2018, albeit bulk accounts for the incorporation of the external contractual employees to NIS who in the past was outsourced for the field data collection

been then frequently poached by the private sector in Gulf countries and the international organisations.

6.2.2.6 Trade reforms

Regarding the Action 8, the condition was not meet, but following the consultation with the Member States Committee upon reception of the Compliance Report submitted by the Tunisian authorities as well as of the letter from the Minister confirming the commitments to the follow-up actions, the waiver was granted by DG ECFIN[95].

The study team found that the implementation of this reform was hampered by the combination of factors:

- Shortages in the qualified staff in some of the departments at the Ministry of Industry and SMEs involved in the more technical aspects of the implementation coupled with the relative complexity of the reform;
- Continuous updates of the European directives that made the legislative work of the Tunisian side more challenging i.e. norms related to the EU *acquis* evolve over the time making adherence more challenging ('moving target');
- The fact that the reform required the collaboration and consensus across several ministries slowed down the progress due to regular changes of the Tunisian governments that were then trickling down into the ministries involved;
- Some lobbying of industrial associations (some of it from protected sectors) resisting lifting of the production standards in line with the EU level ones.

In terms of the benefits from the reform, out of 68 norms on electrical, electronic and construction products envisaged for harmonisation, relevant legislation on only 6 have been published in the Official Journal at the time of writing his report. One of the hurdles relate to the ongoing discussions within involved ministries and with the industry on what type of products should be eventually covered by the new technical regulations (particularly acute issue for construction products). Generally, in view of the Ministry of Industry and SMEs, small minority of construction products meets currently the EU standards. The situation for electric and electronic products is only slightly better.

MFA was one of the factors, but not the critical one, that has incentivised the authorities to advance this reform. This area of reform was also covered by other EU programs (PARs) as well as by the ACAA and DCFTA negotiations. The interviewees from the Ministry of Industry and SMEs stated that the MFA accelerated the pace of the reform, but it was not critical in its advancement.

Overall, number of interviewees including EEAS, EU Delegation and the interviewees from the Ministry of Industry and SMEs and MDIIC expressed the view that this condition may have been overly ambitions given all the contextual factors. Given the genuine complexity of this reform[96], persistent effort of the DG ECFIN, DG TRADE and DG GROW to advance the reform coupled with the delay of the approval of the condition aiming at incentivising the authorities to speed up the progress, persisting capacity issues at Tunisian side, personal assurances provided by the Minister of Industry and Trade and looming expiration of the MFA operation that would have made the last EUR 100 mln tranche unavailable, the study team found granting of the waiver by DG ECFIN was fully justified.

[95] DG ECFIN, 2017. Report from the mission to Tunis (18-21 April 2017)

[96] As a context, generally no country from the Southern Neighbourhood has so far managed to conclude ACAA

Regarding the Action 9 the law on food safety was submitted to the Parliament in November 2016. The draft law on safety of industrial products had been transmitted to the Council of Ministers on 12 April 2017 and approved on 28 April 2017. The Ministry of Industry and SMEs informed in the interview that the law has been already submitted to the Parliament, albeit it is still discussed.

Table 13. Action 1 – Tax reform

Action 1: Adoption of a decree reducing the number of economic activities eligible for the régime forfaitaire with a view to increasing the tax collection and make the system more equitable.	
Implementation	The tax reform started in 2013 and the National Tax Consultations (focus groups) were organized during 2014. In November 2014 the MoF organized the Assises National de la Fiscalité, a two-days event with more than 500 participants including international donors to end the focus groups process, and to discuss and finalize the tax reform project. In August 2014, the Ministry of Finance adopted a decree excluding the access to the *regime forfaitaire* for specific 70 activities located in the urban areas. While the initial considerations related also to exclusion of the same 70 activities from rural areas too, this was dropped for political reasons. See Case Study on régime forfaitaire is presented in Annex 11.
Evidence of Implementation deficit	The reform of the régime forfaitaire has been seen as much needed by both IMF and MFA, although only the latter one promoted it *via* the conditionality. Overall, the decree was adopted resulting in some actual changes, but overall progress in making régime forfaitaire more equitable and beneficial from the revenue perspective has been limited so far. In mid-2016 when the new government came into power, there was some increased appetite for the further reforms as illustrated by the fact that the authorities had included it in the draft Budget for 2018. Yet, it was eventually dropped under the pressure exercised by some vested interests including representatives of some Members of the Parliament, free professions and some resistance of the tax administration. Consequently, the eligibility criteria have not changed materially over recent years. The data provided by the Ministry of Finance suggests that both, the number of taxpayers benefiting from the regime forfaitaire has been on the constant rise since 2011 reaching 421,313 entities in 2018 (compared to 318,511 in 2011)[97].
Relevance	High. While the discussions on the reform of régime forfaitaire were taking place already in 1990s, the negotiations become more concrete only in 2014 in the context of the debate about the overhaul of the Tunisian tax system, and when the government committed itself to a general reform of the tax regime with the objective to simplify it and make it more equitable (broadening the tax base rather than increasing the existing tax rates). While the financial benefits of the reform of the regime forfaitaire in terms of the fiscal revenue would not have been large (fiscal revenue generated from the payers of régime forfaitaire accounted for ~0.1% of the GDP in 2017), there would be still tangible. The Ministry of Finance and independent experts reckon that around 60-70% of current taxpayers under régime forfaitaire are de facto not eligible and the foregone budget revenue may oscilate around 0.1-0.2% GDP, at least double what the state currently raises from the taxpayers under régime forfaitaire. In addition, the symbolic importance of the reform aiming at more equitable tax regime at the time when the austerity has been taking particularly heavy toll on some sections of the society was very important.
Importance	High. The important aspect of the reform has been to restrict the access of the régime forfaitaire to only those groups that deserve it. Régime forfaitaire, in its current form, has been not only a source of tax avoidance and fraud, but also strong discontent and prevailing view of the unfairness of the tax system in Tunisia.

[97] The data provided by the Ministry of Finance

Domestic ownership & donor support	The ownership for this reform has been below the level expected by the donors. This is partly due to the strong opposition of some vested interest (i.e. certain parliamentarians and liberal professions) as well as lacking political capital of subsequent governments that would allow to make a decisive push for the reform.
Added Value of MFA	The EU has been the sole IFIs including this reform as part of the conditionality linked to budget support operation, albeit broader tax reform involving some other areas (i.e. VAT) was the IMF structural benchmark under SBA program. It seems that the EU added value of the MFA has been tangible and positive within the narrow scope of the conditionality, albeit only marginally positive given the limited progress in overhaling the while regime achieved so far.
Evidence of benefits	Some streamlining of the regime forfaitaire took place over the recent years involving inter alia[98]: (i) the unification of the maximum threshold of turnover for the benefit of regime forfaitaire of 100k dinars regardless of the activity, (ii) the limitation of the regime to 4 years renewable on justification, (iii) changes the tax rate in the following way: (a) for turnover ≤ 10k TND, 200 TND pa for person located outside of the communal areas and 100 TND for pa for other groups, (b) for turnover between 10k – 100k TND, 3% of the turnover, (iv) the introduction of an optional simplified accounting system to facilitate subscriptions to the régime forfaitaire when the turnover pa does not exceed 150k TND. The authorities claimed to attempt to restrict the number of eligible professions, but the data on taxpayers under régime forfaitaire suggests otherwise. The reform remains high on the agenda of the local civil society representatives and donors and the MFA has most likely contributed to it as well.
Evidence of long-term Impacts	No evidence on long-term impacts have been identified.

[98] Information provided by the Ministry of Finance

Table 14. Action 2 – SSN reform

Action 2: Launch, and progress with, a special survey of the households currently benefitting from the Programme National d'Aide aux Familles Nécessiteuses (PNAFN) and reduced price health programmes (Cartes de soins gratuites et à tarifs réduites) – with a view to progress towards establishing a unified database and targeting system based on a single Social Identification Number.	
Implementation	The condition implied the implementation of a survey aiming at identifying the families benefitting from the PNAFN and subsidised health care programmes and re-assessing their eligibility for these programmes. The survey should have been launched in the summer of 2014, shortly after the National Census. Though, its desk phase started in December 2015 and its field phase only in April 2017. Despite the initial plans to complete it within 18 or even 12 months, it is still ongoing as of early 2019. By the end of 2018, circa 600,000 households (out of the envisaged ~900,000) were surveyed.
Evidence of Implementation deficit	The condition had been considered as met at the time of the assessment of compliance with the MoU conditionality for the second disbursement (in September 2015) despite that the survey was not yet launched. As explained in the Commission's information note to the Council and the Parliament on the second disbursement, this was because of the substantial progress (confirmed by the WB) which had been made in the preparations for the launch of the survey and the anticipation that the survey would be launched in December 2015. The launch of the national survey had reportedly, according to Tunisian Authorities, been delayed because of (i) the need to upgrade and adapt the IT systems within the MoSA (for which public procurement process was delayed) and (ii) the delays in the accompanying technical assistance project financed by the World Bank which had knock-on effects on the procurement procedures needed to launch the survey. Other factors played also a role (see SSN Case Study presented in Annex 10). Progress with the implementation of the survey has been therefore slower than expected (the implementation of the survey is a huge undertaking, relying on the inputs from over 2,000 social workers) but donors noted a significant acceleration in the data collection marked from late 2017 onwards[99]. As outlined in the Commission's information note to the Council and the Parliament on the second disbursement, there was the initial expectation that at a later stage, with the ultimate objective to further improve the targeting system, the database containing information on beneficiaries from social security programmes would be integrated with other public information databases such as the one based on the national identification number (from the Ministry of Interior) or fiscal information (from the Ministry of Finance). Concerns related to the privacy were,

[99] Interviews with IMF and WB

	however, raised and the system will not work via a unique identification number but via a sectorial identification number. It will still allow the information exchange with the main concerned ministries (e.g. social, health, employment)[100] and linking of with other databases may happen at a later stage.
Relevance	High. At the time of the MFA operation, the social protection model in Tunisia still relied heavily on generous food and energy subsidies (around 7 per cent of GDP[101] in 2013) which, untargeted, were also inequitable, especially when it came to fuel subsidies: for 70 per cent of their amount, fuel subsidies benefit the 20 per cent wealthiest of the Tunisian population[102]. The MFA condition focused on accompanying the needed reform of energy sector subsidies by making further steps towards targeted social policies, which would help compensate vulnerable households previously reliant on untargeted subsidies. This is relevant since the main existing social safety net programme providing cash transfers to vulnerable families, namely the "Programme National d'Aide Aux Familles Nécessiteuses" (PNAFN) (which has been set up 1986 following a first reform of subsidies promoted by an earlier IMF programme and is accompanied with free healthcare under AMGI) has been found to be insufficiently targeted to the poor[103]. Indeed while the resources available for PNAFN allow to cover 8.3 per cent of the population, only 3.9 per cent (i.e. 47 per cent) of the 8.3 per cent poorest are covered by the PNAFN. While 49% of those 8.3% poorest are covered by the other programme offering health care at a reduced rate, AMGII, 6% do not benefit at all from the existing SSN. Further, 16% of the resources available for PNAFN reach households which belong to middle class or above (i.e. do not belong to the 30% poorest tranche of the population). Now, these results are not totally dissimilar to the situation observed in other developing countries and the targeting will never be made on perfect information and so it would be unrealistic to expect that the 8.3 per cent of the population covered by the PNAFN will be exactly the 8.3 per cent poorest. But still there is still room to improve targeting notably if Tunisia's SSN information system were to be revamped. Currently the system is not computerised, fragmented, divided and complex. The survey will be a first step in populating a database and having the machinery in place to target social assistance more adequately.
Importance	High given: (i) the budgetary cost of energy subsides and their inequitable nature; (ii) the potential to improving targeting of the PNAFN

[100] Interview with CRES, Tunis

[101] Cuesta, José, Abdel Rahmen El-Lahga, and Gabriel Lara Ibarra. "The socioeconomic impacts of energy reform in Tunisia: a simulation approach". The World Bank, 2015

[102] World Bank. "The Unfinished Revolution: Bringing Opportunity, Good Jobs, and Greater Wealth to All Tunisians." (2014).

[103] See: http://www.cres.tn/uploads/tx_wdbiblio/Rapport_CRES_mai_2017.pdf

	That said, the importance would have been even greater if the reform of energy subsidies had progressed more, requiring corresponding compensation to be in place (see also SIA). In the current context, raising the firepower of existing programme served instead to compensate the general higher cost of living.
Domestic ownership & donor support	In 2012, discussions on the creation of a unified database and undertaking social reforms had started at the national level. Hence the national commitment for social safety reform was not new.[104] The mission also confirmed that the national ownership of SSN reforms is high. Broad consensus between the different concerned parties took however time to be constructed, both at the political and social levels and the EU felt reluctance to implement the reform (especially before data protection issues were properly addressed)[105]. There was also capacity issues. In light of this, the WB started with providing continuous technical assistance before only now introducing progress in this area in its currently negotiated budget support operation. MFA was not the only programme with conditions in relation to the establishment of database, as evidenced by the review of the documentation of the second EU PAR programme (from 2012) and of the IMF EFF programme (from 2016).
Added Value of MFA	The MFA had a politically reinforcing effect, while the technical assistance implemented by the World Bank was instrumental in achieving the progresses with the survey design and implementation.
Evidence of benefits	The survey is still ongoing and the SIN database is still under development. As yet, the provision of social assistance has not been affected but steps have been made in the right direction towards building the necessary infrastructure and better targeted and fairer system.
Evidence of long-term Impacts	Expectations are high given the potential to better target the programmes. There is scope for improvement in terms of lowering the inclusion or exclusion errors. But tangible improvements will only be made in the coming years, once policy changes are actually implemented (if that is indeed the case).

[104] Interview with the WB, Tunis

[105] Interview with the EU delegation, Tunis

Table 15. Action 3 – Financial Sector

Action 3: Submission to the Parliament of the Law aiming at strengthening the governance of the Central Bank of Tunisia (reinforcement of the bank's independence, accountability and transparency)	
Implementation	A draft law was prepared by the Central Bank of Tunisia and was approved by its Board in April 2015. It was submitted to Parliament on 5 November 2015.
Evidence of Implementation deficit	There is no implementation deficit. The draft law was in line with the new 2014 Constitution, including amendments to bolster Central Bank's governance and establishing its function as a lender of last resort. Moreover, the proposed law followed international good practices, notably regarding the scope of the institutions eligible for last resort loans and their eligibility requirements. The law was approved by Parliament in April 2016[106].
Relevance	High. Financial sector reforms have historically faced delays, which led the IMF to express concerns regarding the banking sector vulnerabilities and the risks they pose to the economy. The Law on the governance of the Central Bank represents one of the key measures which needed to be taken to tackle some persistent issues besetting the financial sector. IMF's first safeguards assessment of the Central Bank of Tunisia, finalised in June 2013, had specifically highlighted how the Central Bank needed more autonomy[107].
Importance	High.Financial sector vulnerabilities can lead to pervasive macroeconomic problems if not addressed promptly, as underlined by the IMF and acknowledged by the EU in the MoU.
Domestic ownership & donor support	Interviews suggest that the Tunisian authorities had strong ownership and commitment to this action. IMF supported the Central Bank with technical assistance throughout the preparation process and also included related conditionality in the SBA programme.
Added Value of MFA	In a context where financial sector reforms were historically delayed, and where there was no political consensus on the need for independence of the Central Bank, this MFA condition gave an additional push, in complement to IMF's work who systematically pushed for reforms in the financial sector.

[106] DG ECFIN, 2015.Report on mission to Tunisia: review of compliance with conditions for 2 tranches of MFA and possible further MFA

[107] IMF, 2015. IMF Country Report No. 15/285

Evidence of benefits	With the new law, the independence is now greater, de jure and de facto. The Central Bank governor has been able to raise interest rate several times since he was appointed and this is seen by many as beneficial to counter inflation and limit the government's abusive use of deficit financing[108]. Others, however, fear that the tightening of the monetary policy will not help contain inflation, given that inflation is imported, and will actually further fuel unemployment[109].
Evidence of long-term Impacts	No evidence on long-term impacts has been identified at this stage. According to the supporters of the reforms, greater independence for the Central Bank, together with other structural reforms, is expected to positively impact investment, economic growth and job creation in the medium to long term.

Table 16. Action 4 – Public Statistics

Action 4: With a view to enhancing the governance of the national statistics system, as well as the production and dissemination of statistical data, the Institut National de Statistique and other public entities being part of the national statistics system will adopt a national Chart of public statistics consistent with the United Nations Fundamental Principles of Official Statistics and the European Statistics Code of Practice.	
Implementation	In March 2015 the Institut National de Statistique (INS) produced a draft Charte de la Statistique Officielle Tunisienne, which aimed at reflecting the main elements of the United Nations Fundamental Principles of Official Statistics and the European Statistics Code of Practice. In parallel, the Conseil National de la Statistique prepared a revised version. Between June and July 2015, both institutions discussed and agreed on a common document, which was then shared with ECFIN and ESTAT. During the 2015 mission, ECFIN staff called for the Chart to be aligned in particular with the principles of statistical independence, which did not seem to be fully covered. Following the mission, a meeting among all the statistical bodies in Tunisia took place on 8 September and a revised version was sent for ECFIN and ESTAT revision. The conclusion by ESTAT has been that the revised version is a welcome development and is sufficiently aligned with the EU and UN codes and fundamental principles. The Code was adopted on 30 September through a ministerial decree issued by the Ministry of Development Cooperation and Investment[110].

[108] See for instance: https://www.middleeasteye.net/opinion/strong-central-bank-can-save-tunisias-economic-and-democratic-model

[109] See for instance: https://www.huffpostmaghreb.com/entry/la-banque-centrale-de-tunisie-augmente-son-taux-dinteret-directeur-une-decision-loin-de-faire-lunanimite_mg_5c6d26ede4b0e2f4d8a0ed6a

[110] IMF, 2015. Report on mission to Tunisia: review of compliance with conditions for 2 tranche of MFA and possible further MFA

Evidence of Implementation deficit	The fact that both the INS and the National Statistical Council worked on draft of Charte de la Statistique Officielle Tunisienne (Chart of Official Tunisian Statistics), and differed on some aspects initially, contributed to delays in the finalisation and adoption of the Code.
Relevance	EUROSTAT, supported by other Member State national institutes of statistics, carried out an overall assessment of Tunisia's statistical system in 2014. One of the conclusions was that Tunisia should enact the necessary legislation to ensure the full independence of the INS and strengthen other aspects of the governance of the statistical system as well[111]. Tunisia representatives from the INS agreed that this condition was relevant and in line with Tunisia's efforts to increase the quality and reliability of public statistics and the independence in their production. It was suggested that although initially the adoption of a revised statistics law was foreseen for the MoU, the Chart was ultimately chosen as a result of negotiations, since it was deemed more feasible in the timeframe of one year envisaged for the implementation of the MFA. Besides, there has been long deliberations in Tunisia on the new law on public statistics that would replace the current law from 1999. This new draft law that may follow the adoption of the Chart would address, inter alia, the issue of independence – an issue that was often discussed by the experts and came up in the local and foreign publications[112]. The draft law focuses also on professional independence. For instance, the director of INS could only have two mandates for five years each; he/she could not be revoked before the end of the term, except for serious faults. INS representatives expressed the view that there were no consistent attempts from the authorities to infringe their independence while there were still some individual members of the Parliament who on few occasions publicly undermined the thoroughness and methodological robustness of the INS statistics.
Importance	Medium. The Code stressed the importance of some principles such as professional independence and transparency. Yet, the meaningful changes are envisaged only in the draft law that would replace the current law on public statistics from 1999. It would, inter alia, introduce the concept of 'official statistics', define the relation of the INS with other Tunisian institutions and government departments involved in the production of statistics and align some minimum resources with the key data collection activities conducted by the INS. The draft of the new law is still being discussed in the Parliament, despite over 4 years since it submission by the government. There are no immediate prospects for its adoption, certainly not prior to 2019 elections.
Domestic	Interviews suggest that the Tunisian authorities showed reasonably good commitment to this reform.

[111] DG ECFIN, 2014. Report on mission to Tunisia: MoU negotiations for Macro Financial Assistance

[112] For instance: Kapitalis, November 2018. Tunisie: L'INS n'est pas seul responsible des statistique. Available at: http://kapitalis.com/tunisie/2018/11/22/tunisie-lins-nest-pas-seul-responsable-des-statistiques-non-credibles/

ownership & donor support	Other donors or programmes were also involved in reforms of the public statistics. By way of example, the IMF supported the adoption of the Chart as one of its structural benchmarks. PAR4 incorporated also the revision of the law on statistics in its conditionality.
Added Value of MFA	The perception of Tunisian representatives was that the EU support appeared to have accelerated discussions on the Chart, albeit there was already some pre-existing appetite in Tunisia to adopt it and the role of other donors was also important. The African Chart of Public Statistics endorsed by the Pan African Institute of Statistics that is similar to United Nations Fundamental Principles of Official Statistics (and therefore the Chart) was ratified in 2014 (prior to the MFA).
Evidence of benefits	Adoption of the Code can be seen as the step in aligning the standards of the national statics with the international standards. Yet, its implications (and benefits) are assumed to be relatively minor compared to those that would stem from the adoption of the new law on public statistics.
Evidence of long-term Impacts	The INS expressed the view that the substantial changes may be brought by the currently discussed draft law on statistics. It is expected to, inter alia, define the relation of the INS with other Tunisian institutions and government departments involved in the production of statistics, define the concept of 'official statistics', or introduce the provisions seeking the professional independence.

Table 17. Action 5 – PFM reform

Action 5: With a view to strengthening the external audit of public accounts, the Government will submit to Parliament a new law on the Cour des Comptes (CdC) reflecting the provisions in the new Constitution. The new law will, in particular reinforce the administrative and financial independence of the CdC and ensure a sufficiently wide remit in terms of the type of public accounts it can audit, in line with INTOSAI standards. It will also define the modalities for the publication and follow-up of the CdC's findings and will clarify the sanctions regime.	
Implementation	In the 2014 new Constitution, the Court of Auditors was raised to a financially independent organ (article 117). Consequently, the secondary legislation, namely the relevant Organic Law on the CdC[113], which was predating the Constitution and did not include any specific reference to an independent Court of Accounts needed to be updated in order to reflect the provisions of the article 117. The European Commission introduced the submission to Parliament a new law on the Cour des Comptes (CdC) including provisions for the "reinforcement of the administrative and financial independence of the Cour des Comptes" as a condition for the release of the 3rd tranche of the MFA.

[113] Loi no. 68-8 du 8 mars 1968, portant organisation de la Cour des Comptes (last amended in 2008)

	The discussions on the adoption of a draft organic law on the Cour des Comptes started in early 2015. The draft organic law on the CdC was eventually adopted by the Government and transmitted to Parliament on 16 June 2016 (Draft Law #38-2016). While the condition is considered as being met, the ultimate objective of the reform of strengthening the external audit of public accounts and ensure the financial independence of the CdC was meet only in April 2019 when the new Organic Law of the Cour des Comptes was adopted.
Evidence of Implementation deficit	The delays in the adoption of the law by Government were caused in part by the delays in setting up the Supreme Judicial Council, a judiciary body responsible inter alia for the respect for the Court of Accounts' independence, which had to be consulted on the new CdC law. Once the CSM was established (in extremis and thanks to the intervention of the President of the Republic in ealry 2016). In light of this, pro-reformers had the intention to make progress with the financial and administrative autonomy of the Court via the adoption of the Organic Budget Law (Loi organique du budget or LOB), which defines more generally the funding mechanisms of the various Constitutional Authorities and public bodies created by the 2014 Constitution. In a similar fashion than with the law on the CdC itself however, the first draft LOB did not confer to the Court of Auditors the same special status as the other independent Constitutional Authorities, leaving the CdC under the supervision of a Ministry. After more discussions, advocacy work and a peer review exercise conducted by the Austrian and Egyptian Courts of Auditors reminding that the drafts, as they stand, were not INTOSAI-compliant, the legislators temporised and adopted the Organic Budget Law on January 31st, 2019, without making a judgement on the financial and administrative autonomy of the Court and instead referring back to the CdC law itself. According to the CdC itself, risks were real that financial and administrative autonomy be rejected by the Parliament. Yet, at the time of drafting this report the Organic Law of Cour des Comptes was adopted by the Parliament on April 16th 2019.
Relevance	High. Since 2011, at the dawn of the revolution, the Court of Auditors claimed the needs for a modernisation of its function. The importance of focusing on external audit was also acknowledged in the ex-ante evaluation for the MFA to Tunisia carried out in 2013 and confirmed in the Operational Assessments (January 2014) which stated that the legislative framework of the Court of Auditors was obsolete: the secondary legislation which was applicable (and still is) is not compliant with INTOSAI standards regarding independence. The Operational Assessment suggested that reforms within the PFM sector should concentrate on increasing transparency and accountability, and strengthening external and internal audit capacity.
Importance	High. INTOSAI standards recognise that Court of Auditors cannot fulfil their missions without administrative and

	financial independence.
Domestic ownership & donor support	Initially there were signs that the ownership of the reform was high. The introduction of the independence of the CdC in the new Constitution indicates that there were already plans to reform the system. In addition, in 2011, the President of the Republic, made use of an existing provision to ensure that CdC' s reports would be made public and this was labelled as one of the first signs of increased transparency and accountability, intervening in the field of external audit114. With time however, and with the draft sitting at the Parliament for several years and the discussions which have taken place around the Organic Budget Law, it has become clearer that there is a lack of political will, especially among the two majority parties in the Government, to grant financial and administrative autonomy to the CdC. Those seem to use existing budget restrictions as an excuse to try putting the CdC under the supervision of a Ministry while opposition parties would rather be in favour of the Court's full independence. The CdC has received assistance from the French Court of Auditors (as part of a twinning project). It also benefited from a peer review exercise financed by the Austrian Development Cooperation stressing again the importance of the independence of the Cour des Comptes. The EU continues to exercise pressure for progress in this area via MFA II condition, itself calling for the adoption of the law.
Added Value of MFA	MFA condition is believed to have played a politically reinforcing role. The condition by the European Commission helped in emphasizing the importance of the reform, while MFAII seeks to avoid backtracking on this point.
Evidence of benefits	The condition was fulfilled (the draft law on CdC has been transmitted to the Parliament). Even though it took nearly three years since the draft was submitted to the Parliament, it was eventually adopted on April 16th 2019.
Evidence of long-term Impacts	No evidence of long-term impacts, yet.

Table 18. Action 6 – SSN reform

Action 6: Setting up an interactive and dynamic database on vulnerable and low income households based on a single Social Identification Number	
Implementation	Progress with the two main related aspects included in Action 6 have been assessed as satisfactory by DG ECFIN and are discussed in turn here:

[114] 2015 PEFA assessment on Tunisia, p 123. Available at: https://pefa.org/sites/default/files/TN-May16-PFMPR-Public%20with%20PEFA%20Check.pdf

	(i) setting up an interactive and dynamic database on vulnerable and low income households based on a single Social Identification Number; - data collection on vulnerable households. This was done notably via the survey promoted as part of Action 2 and is still ongoing with major progress made lately after encountering much delays, see Table 14 - development of a computerized Information System. Again this is work in progress with work being done by the CRES around criteria to be used to define vulnerable households based on the results of the recently completed evaluation. (ii) adopting or reinforcing a cash support programme designed to compensate vulnerable households affected by the reform of energy price subsidies; As explained in the Commission's information note to the Council and the Parliament on the third disbursement, the choice has been made to reinforce existing programmes, focussing on (between 2013 and 2017): (between 2013 and 2017) , the focus was on: - increasing the number of beneficiaries of existing programmes (e.g. from 220,000 to 240,000 for the number of households benefitting from the PNAFN) - increasing the amounts paid: from TND 105 to TND 180 (plus TND 10 per child, with a maximum of 3 children per household). No progress has however been made yet with the actual targeting.
Evidence of Implementation deficit	There is no implementation deficit. Tunisia has made significant progress towards achieving the prerequisites for a meaningful SSN reform, albeit slower progress than planned. Work on the development of the database is still ongoing and progresses on the ground were essentially made with increasing the firepower of existing cash transfer support programmes. There is however still the same significant scope for better targeting social assistance programmes (as no progress in this field has been achieved so far). The reform of energy subsidies are also lagging behind.
Relevance	At the time of the MFA operation, the social protection model in Tunisia still relied heavily on generous food and energy subsidies (around 7% of GDP[115] in 2013) which, untargeted, were also inequitable, especially when it came to fuel subsidies: for 70% of their amount, fuel subsidies benefit the 20% wealthiest of the Tunisian population [116].

[115] Cuesta, José, Abdel Rahmen El-Lahga, and Gabriel Lara Ibarra. "The socioeconomic impacts of energy reform in Tunisia: a simulation approach". The World Bank, 2015.

[116] World Bank. "The Unfinished Revolution: Bringing Opportunity, Good Jobs, and Greater Wealth to All Tunisians." (2014).

	The MFA condition focused on accompanying the needed reform of energy sector subsidies by making further steps towards targeted social policies, which would help compensate vulnerable households previously reliant on untargeted subsidies. This is relevant since the main existing social safety net programme providing cash transfers to vulnerable families, namely the "Programme National d'Aide Aux Familles Nécessiteuses" (PNAFN) (which has been set up 1986 following a first reform of subsidies promoted by an earlier IMF programme and is accompanied with free healthcare under AMGI) has been found to be insufficiently targeted to the poor[117]. Indeed while the resources available for PNAFN allow to cover 8.3% of the population, only 3.9% (i.e. 47%) of the 8.3% poorest are covered by the PNAFN. While 49% of those 8.3% poorest are covered by the other programme offering health care at a reduced rate, AMGII, 6% do not benefit at all from the existing SSN. Further, 16% of the resources available for PNAFN reach households which belong to middle class or above (i.e. do not belong to the 30% poorest tranche of the population). Now, these results are not totally dissimilar to the situation observed in other developing countries and the targeting will never be made on perfect information and so it would be unrealistic to expect that the 8.3% of the population covered by the PNAFN will be exactly the 8.3% poorest. But still there is still room to improve targeting notably if Tunisia's SSN information system were to be revamped. Currently the system is not computerised, fragmented, divided and complex. The survey will be a first step in populating a database and having the machinery in place to target social assistance more adequately.
Importance	High given: (i) the budgetary cost of energy subsides and their inequitable nature; (ii) the potential to improving targeting of the PNAFN That said, the importance would have been even greater if the reform of energy subsidies had progressed more, requiring corresponding compensation to be in place (see also SIA). In the current context, raising the firepower of existing programme served instead to compensate the general higher cost of living.
Domestic ownership & donor support	In 2012, discussions on the creation of a unified database and undertaking social reforms had started at the national level. Hence the national commitment for social safety reform was not new.[118] The mission also confirmed that the national ownership of SSN reforms is high. Broad consensus between the different concerned parties took however time to be constructed, both at the political and social levels and the EU felt reluctance to implement the reform (especially before data protection issues were properly addressed)[119]. There was also capacity issues. In light of this, the WB started with providing continuous technical assistance before only now introducing progress in this area in its currently negotiated budget support operation.

[117] See: http://www.cres.tn/uploads/tx_wdbiblio/Rapport_CRES_mai_2017.pdf

[118] Interview with the WB, Tunis

[119] Interview with the EU delegation, Tunis

	MFA was not the only programme with conditions in relation to the establishment of database, as evidenced by the review of the documentation of the second EU PAR programme (from 2012) and of the IMF EFF programme (from 2016). On the related reform of energy subsidies more specifically, this is a more sensitive topic which has been contested in the streets.
Added Value of MFA	The MFA had a politically reinforcing effect, while the technical assistance implemented by the World Bank was instrumental in achieving progresses made.
Evidence of benefits	The survey is still ongoing and the SIN database is still under development. As yet, the targeting of social assistance has not been affected but steps have been made in the right direction, towards building the necessary infrastructure. Our SIA in annex shows that the increases to monthly disbursements have outstripped inflation in the last decade, allowing households to cope with rising of living (if not for reduction in energy price subsidies).
Evidence of long-term Impacts	Expectations are high given the potential to better target the programmes. There is scope for improvement in terms of lowering both the inclusion and exclusion errors. But tangible improvements will only be made in the coming years, once policy changes are actually implemented (if that is indeed the case).

Table 19. Action 7 – Financial Sector

Action 7: Submission to Parliament of a new banking law enhancing the bank resolution framework and strengthening the governance of banks, prudential supervision and sanctions' regime. Specific requirement that the law needs to define the precise features and implementing modalities of a deposit guarantee scheme for banks in line with international standards.	
Implementation	The draft law was adopted by Government and submitted to Parliament in February 2016.
Evidence of Implementation deficit	There is no implementation deficit. IMF has endorsed the content of the law, law which was a prior action for the approval of the new EFF programme. As foreseen by the MFA condition, the Law includes the creation of a deposit guarantee scheme, whose implementation went on to become a conditionality under MFA-II120. Other elements that the new law foresees include: (i) a reorganization of the sector- supervision of Islamic financing activity, harmonisation of the activities of resident and non-resident banks, (ii) supervision of manual exchange activity and payment activity, and (iii) approval procedures for the creation of new banks- reinforcement of the criteria and need for the BCT to justify its response in

[120] European Commission, 2016. Report on mission to Tunis (8-11 November 2016)

	case of refusal. The law was adopted by Parliament on 12 May 2016 (Law # 009-2016). Actual progress has been made since then. For instance, the deposit guarantee fund was operationalised in January 2018[121].
Relevance	High. The Tunisian financial sector had notoriously been affected by multiple vulnerabilities and delays surrounding financial sector reforms were persistent, boosting up further the banking sector's vulnerabilities. Donors and IFIs generally agreed that progress was needed in these areas.
Importance	High. Financial sector vulnerabilities can lead to pervasive macroeconomic problems if not addressed promptly, as underlined by the IMF.
Domestic ownership & donor support	Scoping interviews suggest that the Tunisian authorities had strong ownership and commitment to these reforms. While this new law was being prepared and even before that, Tunisian authorities had already started to take some steps to address the weaknesses of the financial sector. For instance, in 2013, the authorities published a decree strengthening the governance of state-owned banks by excluding them from the scope of the law governing public companies, thereby making them subject to the same rules as private banks. The Central Bank was also actively involved in public bank audits and recapitalisation efforts. All this proves the commitment of the authorities to making progress in this reform area[122]. In spite of this, reinforcing commitment / accelerating path of reform was needed as evidenced by the fact that the IMF had to repeatedly include conditions related to this banking law. The adoption by the Parliament of the new Banking Law was one of structural benchmarks already in 5ht and 6th review for the SBA programme (taking place respectively in December 2014 and October 2015), and included again as prior action for the EFF. The fact that it was a prior for the EFF certainly explains the record time between submission to Parliament and adoption in the first half of 2016.
Added Value of MFA	In a context where financial sector reforms were historically delayed, this MFA condition emphasized the need for reforms, which showcases its added value. Moreover, it complemented IMF 's push for reforms in the financial sector, contributing to the overall effectiveness of the package of financial support that international donors committed to in the aftermath of the crisis[123].
Evidence of benefits	The benefits mentioned by the Tunisian authorities in an interview include having a legislative framework closer international standards, in relation to the Bank Deposit Guarantee Fund, the licensing mechanism and prudential

[121] IMF, 2018. Fourth Review under the EFF. IMF Country Report No. 18/120

[122] IMF, 2014.First and Second Reviews under the Stand-By Arrangement, Request For Waivers Of Applicability And Nonobervance Of Performance Criteria

[123] European Commission, 2013. Ex-ante evaluation statement on EU macro-financial assistance to the Republic of Tunisia

	standards. The IMF continued to push for reforms in this area, at the level of the secondary legislation, to address some of the weaknesses which persisted in the banking law regarding the bank resolution framework. Beyond de jure changes, there has also been changes on the ground, for instance with the Bank Deposit Guarantee Fund now being operationalised.
Evidence of long-term Impacts	No evidence of long-term impacts has been identified so far. However, the IMF expects that such reforms will strengthen the foundation for inclusive growth and strong job creation[124].

Table 20. Action 8 – Trade reform

Action 8: Publication of the decrees implementing the new technical regulations converting the existing system of industrial compulsory standards (normes homologuées) into a system aligned with that of the EU, for the two priority sectors that will be covered by the ACAA, namely, building materials and electrical and electronic products.	
Implementation	DG ECFIN assessed that substantial progress was made with the preparation of some of the technical regulations transposing the key EU legislation in building materials and electrical and electronic products as the Tunisian standardisation body already adopted 80-90% of the EU's *voluntary* harmonised standards in the two key sectors covered by this MoU Condition. Furthermore, by 2017, the Ministry of Industry and SMEs finalised three regulations (transposing the LVD, the RoHS and the EMG Directive respectively). Two of them have yet to be published in the JORT due, inter alia, their dependence on the passage of the law on the safety of industrial products. As for the two remaining regulations which have not been finalised (the Energy Labelling Directive- 2010/30/EU and Regulation 2011/305/EU on the security of construction products), the progress has been delayed. The regulation on the security of construction products is currently being discussed. One of the key issues, in view of the Ministry, is the agreement on the list of products[125]. In light of the delay, and due to efforts made by the Tunisia authorities to achieve progress in relation to this condition, a waiver was granted by DG ECFIN[126].
Evidence of Implementation	The implementation of this reform was hampered by several issues that delayed the entry into force of the five decrees.

[124] IMF, 2017.First Review under the Extended Fund Facility, Request for Waivers of Nonobservance of Performance Criteria and Rephasing of Access—Press Release; Staff Report; and Statement by the Executive Director for Tunisia.

[125] Interview with the Ministry of Industry and SMEs

[126] DG ECFIN, 2017. Report on mission to Tunis (18-21 April 2017)

deficit	In DG ECFIN'S mission report it was suggested that delays were to some extent due to the lobbying of industrial associations (some of it from protected sectors) resisting lifting the production standards in line with the EU level ones. Though, Tunisian officials from the Ministry of Industry and SMEs had somehow different recollection. Their view was that there was no significant resistance from the industry. The principal reasons for delays were: shortages in the qualified staff of some of the departments in the Ministry involved in the reform, continuous updates of European directives (e.g. Electromagnetic compatibility) that made legislative work more challenging (i.e. norm homologues and related EU's acquis evolve over the time making adherence more challenging) the fact that the reform required the collaboration and consensus across several ministries – a condition that proved to hamper the implementation due to regular changes of the Tunisian governments trickling down into the ministries Interviewees from the EU Delegation shared those views stressing generally that the insufficient institutional capacity on the Tunisian side coupled with the genuine complexity of the reform (no country from the Southern Neighbourhood has managed so far to conclude an AACA) could have been better anticipated. The EU Delegation pointed also to the Parliament as another factor slowing down this reform. Overall, EEAS, EU Delegation and the interviewees from the Ministry of Industry and SMEs and MDIIC expressed the view that this MFA trade related condition may have been overly ambitions given the contextual factors.
Relevance	High. One of the preconditions for the ACAA negotiations was for Tunisia to advance the conversion of the system of the "normes homologuées" into a system (aligned with that of the EU) based on mandatory "technical regulations" at sectoral level and voluntary "standards" at product level. A law on standards adopted in 2009 (law 2009/38) foresaw the completion of this conversion process by June 2014[127]. Moreover, an Association Agreement with Tunisia has been in place since 1998 and Tunisia has not been able to benefit fully from the trade agreements/ facilities in place, also because many of the goods produced do not comply with technical standards[128]. Before 2014, progress with the preparations for the negotiations for an ACAA had been mixed. Some headway had been made in adopting the horizontal legislation on accreditation bodies and on the operation of laboratories.

[127] DG ECFIN, 2017. Report on mission to Tunisia: MoU negotiations for Macro Financial Assistance

[128] Interview with the EU Delegation to Tunis

	The objective of Action 8 was to progress further in the preparations for the ACAA negotiations, specifically for the two priority sectors identified (electrical and electronic products and building materials)[129] was therefore highly relevant.
Importance	High. Aligning Tunisian trade legislation with the EU legislation would enable Tunisia to take advantage of the trade agreements/ facilities that are in place and potentially increase the Tunisian export to the EU.
Domestic ownership & donor support	The delays in implementation which characterized this reform do not necessarily indicate any material lack of domestic ownership. Tunisian authorities showed considerable commitment to advance on the decrees[130]. The delays resulted from the insufficient institutional capacity on the one hand, and the high complexity of the reform one the other. This conditionality reflected the EU specific area of interest and other donors did not support it.
Added Value of MFA	This conditionality accelerated Tunisia's progress on this reform, though it was also covered by other EU programs and incorporated in ACCA and DCFTA related discussions.
Evidence of benefits	Out of 68 norms on electric and electronic products and construction products envisaged to harmonise, relevant legislation on only 6 have been published in JORT at the time of writing his report. Generally, small minority of construction products meet the EU standards. The situation for electric and electronic products is slightly better. It was suggested by the Ministry that there has been an uptick in trade exchanges with the EU, which might be attributed to the effects of Action 8 and Action 9. There is no hard data available to support this inference though. The interviewees from the Ministry of Industry and SMEs stated that the negotiations under MFA resulted in a substantial increase iof the know-how about the EU standards among the administration, and the key gaps between the Tunisian and EU norms.
Evidence of long-term Impacts	No evidence of long-term impacts has been identified at this stage.

[129] European Commission. First macro-financial assistance to the Republic of Tunisia, disbursement of third tranche. Information note to the European Parliament and to the Council.

[130] European Commission. First macro-financial assistance to the Republic of Tunisia, disbursement of third tranche. Information note to the European Parliament and to the Council

Table 21. Action 9 – Trade reform

Action 9: In preparation of the launching of negotiations of an ACAA of industrial products between the EU and Tunisia, the Government will submit to Parliament legislation to align the institutional setting for market surveillance with the EU's New Legislative Framework adopted in 2008. In particular, the Government will submit to Parliament the law on security of industrial products and the law on food security	
Implementation	The law on food safety was submitted to the Parliament in November 2016 after being subject to a national consultation. The submission of the law on safety of industrial products still did not materialise at the time of DG ECFIN's mission in November 2017. However, the Commission was informed that the draft law had been transmitted to the Council of Ministers on 12 April 2017 and approved on 28 April 2017. According to the Ministry of Industry and SMEs, the law on security of industrial products is currently in Parliament and should be discussed shortly.
Evidence of Implementation deficit	The EU Delegation pointed to some issues related to the adoption of the law on security of industrial products. Apart from reduced capacity at the Ministry llevel, by the time the draft law was sent to Parliament, the regulation covering industrial goods had apparently expired creating a legal vacuum. In practice, this meant that there were no technical standards for the checks of the safety of products.
Relevance	High. In 2014, the institutional framework for market surveillance was yet to be aligned with the EU New Legislative Framework of 2008. Notably, Tunisia hadn't adopted the key laws on the security of industrial products and on food security. The result of these laws would be the replacement of the Agence Nationale de Contrôle Sanitaire et Environnemental des Produits (ANCSEP) by the Instance Nationale de Contrôle des Produits (INCP) and the Agence Nationale d'Evaluation des Risques (ANER), both dealing with agricultural and industrial products. These two laws were already adopted by the Cabinet of Ministers in the middle of 2010 but were never submitted to parliament (the submission was halted by the government after the revolution, because of pressure from interest groups)[131][132]. In 2015, the EU and Tunisia started the negotiation on the establishment of the Deep and Comprehensive Free Trade Agreement (DCFTA) that would result in the new trade and investment opportunities. The DCFTA also aims at supporting ongoing economic reforms in Tunisia and bringing the Tunisian legislation closer to that of the EU in trade-related areas[133].

[131] European Commission. First macro-financial assistance to the Republic of Tunisia, disbursement of third tranche. Information note to the European Parliament and to the Council

[132] DG ECFIN, 2017. Report on mission to Tunisia: MoU negotiations for Macro Financial Assistance

[133] http://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia/

Importance	High. EU is Tunisia's largest trading partner accounting for 64% of its trade in 2017[134]. Aligning Tunisian legislation with the EU one could have positive impacts on the Tunisian economy i.e. via increased export.
Domestic ownership & donor support	Domestic ownership appears to be have been somehow inconsistent over time, but capacity issues may have played some role as well. These two laws, which were supported by the EU's Programme d'Appui a l'Intégration (PAI) of 2010 (a budget support operation) and a twinning project from the EU, were already adopted by the Cabinet of Ministers in the middle of 2010 but were never submitted to parliament. A few years later, in early 2015, both draft laws were published on the webpage of the Presidency and their publication was followed by a national consultation. Following this, the laws were delivered to an inter-ministerial committee where they had been in discussion for some months[135]. This condition reflected EU specific interests, hence the EU was the only donor backing up this reform.
Added Value of MFA	The conditionality seems to have accelerated Tunisia's progress in this legislation.
Evidence of benefits	The Ministry of Industry and SMEs stated that the by-product of this condition was the establishment of three laboratories (with some financial assistance from PACAM - EU Competitiveness and Market Access Program) operating in the areas of ROHS, Electromagnetic Compatibility and Reaction to fire of building materials. The laboratories that are in operation since 2 years have been used, inter alia, by companies for export conformity assessments. It was suggested by Tunisian authorities that there has been an uptick in trade exchanges, notably in the area of electronics, though it is hard to attribute the effect to this condition without detailed analysis.
Evidence of long-term Impacts	No evidence on long-term impacts has been identified at this stage.

[134] http://ec.europa.eu/trade/policy/countries-and-regions/countries/tunisia/

[135] DG ECFIN, 2016. Report on mission to Tunis (8-11 November 2016)

7 Efficiency of the MFA

Question 3: *Was the disbursement of the financial assistance appropriate in the context of the prevailing economic and financial conditions in the beneficiary country?*

This question is addressed by an analysis of the timing of disbursements [see Relevance section]

Question 4: *In what way has the design of the MFA assistance conditioned the performance of the operation in respect to its cost and its objectives?*

This question is addressed by analysing:

- Entry conditions for the MFA operation (ownership and capacity for reform)
- Flexibility of the operation to adjust to contextual changes
- The effectiveness of dialogue between the European Commission and Tunisian authorities
- The effectiveness of monitoring of the MFA operation
- The visibility of the MFA and surrounding communication activities

7.1 Timing of the disbursement of financial assistance

The discussion on the timing of the disbursements is provided under Section 5 (Relevance).

7.2 Design of MFA assistance and efficiency of implementation

7.2.1 Ownership of the programme by the Tunisian authorities

The level of ownership of the MFA operation was assessed by some interviewed stakeholders as lower than expected[136]. This is in line with the experience of other donors in Tunisia over the recent years. For instance, WB assessed the authorities' performance[137] under GOJ DPL 2 and GOJ DPL 3 as '*moderately unsatisfactory*'[138]. The IMF in turn consistently stressed the challenge in reaching swift and broader consensus spanning beyond the governing coalitions as an important contextual factor, in particular under the EFF program[139].

Among the key impediments to reform ownership, interviewees[140] pointed most often to the political instability illustrated, inter alia, by very frequent changes of government (more than 10 changes over the period 2011 and 2018). This lack of political certainty has introduced considerable short-termism to authorities' planning and commitments, already suffering from a limited political capital and facing pressure to respond to populist measures. General assessment of donors and the consulted business representatives and civil society members has been that the appetite for reforms started

[136] For instance, views expressed by the EU Delegation (re level of the ownership) and the IMF, WB and DG ECFIN (re its evolution over time).

[137] In this context close but not synonym of the ownership *per se*

[138] WB, 2018. Implementation Completion and Results Report. Available at: http://documents.worldbank.org/curated/en/863551529601264948/Tunisia-Third-Governance-Opportunities-and-Jobs-Development-Policy-Loans-Project

[139] See for instance IMF CR No 16/138

[140] Interviews with DG ECFIN, EU Delegation, WB, EIB, IMF supported by the rich evidence from the desk research

dwindling gradually sometime in the aftermath of the Revolution, in particular from 2016 onwards. It is also fair to say, nonetheless, that the nature of the reforms was evolving over time with increase in the number of reforms tackling long-lasting and socially sensitive issues[141].

Furthermore, desk research and interviews pointed also to the existence of ceratin vested interests influencing the governments' ownership of some specific reforms e.g. representatives of some free professions in relation to régime forfaitaire, or UGTT[142] vindicating strong demands in the context of the reform of public wage bill (the latter not covered by the MFA I). All this in the context of the highly fragmented Parliament consisting of 18 political parties elected in October 2014 and organised in 8 parliamentary groups.

Available evidence suggests that DG ECFIN had to some extent anticipated the risk of some reduced ownership at the design stage of the MFA and adjusted the content of the conditionality package. For instance, targets for some conditions had been softened to set them at a more realistic and achievable level. According to the IMF, the DG ECFIN also decided not to incorporate the condition on the civil service reform that would have addressed the issues around the public sector wage bill judging this reform as too ambitious to be tackled by the MFA operations given the characteristics of the instrument.

7.2.2 Capacity for reform

Capacity was not found to be a constraint for MFA conditionality in certain areas such as financial sector and tax reform. The study team found no evidence suggesting the missing institutional capacity of the Central Bank that would deterred the implementation of the two MFA conditionalities that were broad and technically relatively complex. The challenge of the reform of the régime forfaitaire (led by the Ministry of Finance) lies in its controversial nature and the resistance by certain groups of vested interests, but not it its complexity.

Capacity constraints were found to be an issue in the case of SSN reforms. The Ministry of Social Affairs flagged a lack of capacity at the initial stage of the reforms related to the establishment of a unified database and targeting system, based on a Single Social Identification Number. It found the Technical Assistance from the WB as absolutely crucial in taking forward the reform, but still perceived it insufficient given the complexity of the reform including number of interdependent and sequential tasks and the huge logistical effort required. In the same vein, the capacity of the Ministry of Industry and SMEs to implement one of the two conditions in the trade area was found as insufficient and in contrast with the confidence level demonstrated by the Ministry at the time of designing the condition. The conditionality related to public statistics was arguably too straightforward to be hindered by any capacity related issues.

Throughout the evaluation, the study team consistently came across several pieces of evidence suggesting a continuous loss of know-how in some key Tunisian Ministries and government agencies. The interviewee from the EIB stated that there have been a gradual but perceptible increase in issues with retaining experienced staff in the public sector due to the outflux to more attractive posts offered by private sector/ international organisations. In this context, the IMF pointed to the specific example of the National Institute of Statistics and some loss of expertise and capacity in the institution, not only due to the departure of some experienced staff, but also as a result of a wave of new

[141] View confirmed by the EU Delegation

[142] The Tunisian General Labour Union

hiring in 2016 and 2017 that were not necessarily driven by the existing needs and strict qualification criteria. The interview with the National Institute of Statistics fully confirmed this issue pointing to over 40 per cent reduction in the number of statistical engineers between 2010 and 2018 with parallel continuous increase in the number of data required and produced by the NIS[143]. While this shortage of staff did not affect the implementation of the MFA condition per se, it shows the scale of the problem.

As the side note, several interviewees pointed to some issues related the fact that the main MFA documentation was available only in English. The Ministry of Finance and the Central Bank suggested that the draft MFA Loan Agreement (shared in English) was initially found to be rather complex, and stressed that this was also partly due to lack of French translation. In the same vein, the MDIIC pointed to some differences in understanding of the MFA conditionality stemming from the lack of French translation of the MFA MoU. There has been contradicting view between the EU Delegation and DG ECFIN on the one hand, and the MDIIC whether the issue of translation was or was not raised at the time of the MFA negotiations. The WB and the IMF routinely provide French translations of the core program documentation[144].

More generally, some interviewees[145] acknowledged, that the number of reforms agreed with IFIs in the early years after the Revolution marked by the transition towards a new political system and the adoption of the new Constitution may have been somewhat overwhelming for the young Tunisian institutions. In addition, some interviewees hinted also that the Tunisian authorities unfamiliar with the new form of assistance such as MFA may have been overly optimistic and too quick to agree on some of the reforms without realising the required effort. Generally, the study team found a correlation between the level of cross-ministerial collaboration required by a given condition, and the pravalance of capacity issues.

There has been some coordination work being done by key IFIs recently in order to design a common conditionality matrix that would delineate more clearly the areas of responsibility of a particular donor, and provide authorities with more clarity.

7.2.3 Flexibility and adjustments to implementation given exogenous factors

In principle, the MFA instrument is not a flexible instrument by design. Its deployment is often preceded by a lengthy approval process, and it does not allow modification of its conditionality once the MoU is signed (unlike the IMF programs). It also does not envisage a partial disbursement of financing (unlike some EU budget support programs) when some progress is made, albeit insufficient to warrant the full disbursement.

In the case of the MFA to Tunisia, there was one waiver applied in relation to Action 8 (responsibility of the Ministry of Industry and SMEs). Given the genuine complexity of this reform[146], persistent effort of the DG ECFIN, DG TRADE and DG GROW to advance the reform coupled with the delay of the approval of the condition aiming at further incentivising the authorities to speed up the progress, persisting capacity issues at Tunisian side, along with personal assurances provided by the Minister of Industry and SMEs and the looming expiration of the MFA operation that would have made the last

[143] At the same time the total employment in NIS increased from 400 in 2010 to 1000 in 2018, albeit bulk accounts for the incorporation of the external contractual employees to NIS who in the past was outsourced for the field data collection

[144] See for instance the IMF Memorandum of Economic and Financial Policies signed by the Fund and Tunisian authorities

[145] Interviews with the EEAS, IMF and WB

[146] As a context, generally no country from the Southern Neighbourhood has so far managed to conclude ACAA

EUR 100 mln tranche unavailable, the study team found the fact of granting of the waiver by DG ECFIN, and its timing, as fully justified.

7.2.4 Liaison with Tunisian authorities

Effective dialogue between the Tunisian authorities and the EU (*via* DG ECFIN and the EU Delegation) was critical in supporting the understanding and commitment to conditionalities and management of disbursements. Dialogue was primarily based on formal and regular missions led by DG ECFIN in collaboration with the EU Delegation to Tunisia.

Unlike for all the MFA operations evaluated so far by the study team[147] where the operations' implementation from the authorities' side was coordinated by the local Ministry of Finance, the set up for this operation was different as it was coordinated by the Ministry of Development, Investment and International Cooperation. Interestingly, for the IMF SBA and EFF programs, the fund has had a different arrangement and has been liaising directly with the Ministry of Finance. Though, this was largely motivated by the inclusion of quantitative targets in the IMF program

The EU Delegation and DG ECFIN pointed to some issues related to the coordination of the implementation process, including rather essential issues spanning beyond the substance of the program and concerning aspects such as prompt responses to MFA related communication. At the same time, it must be also acknowledged that some of those were beyond Ministry of Development, Investment and International Cooperation's powers as there were also other Tunisian ministries that were involved at different stages of the implementation process.

During their respective interviews, the MDIIC and the Ministry of Finance acknowledged that MFA operation was the first of its kind and there was some learning curve at the beginning of its implementation.

7.2.5 Visibility of the MFA

While this study did not envisage a systematic media content analysis to gauge the media coverage of the MFA - one of the key aspects around the visibility of the instrument - the current evidence suggests that the visibility has been negligible (at best) and limited to narrow groups of experts. This is not surprising and is largely in line with the findings from all of the past MFA evaluations.

The activities to promote the MFA assistance included, inter alia, press conference and the press releases at the time of the approval of the operation, the signature of the MoU and the subsequent disbursements[148]. For an ongoing operation, the press releases describe general budget allocations, particular conditions included in the operation, progress made by Tunisia in achieving agreed milestones, and the release/ delay of MFA disbursements.

The communication activities around this MFA were coordinated by DG ECFIN with important and regular inputs from the EU Delegation in Tunisia and some contributions from DG COMM (i.e. Spokesperson Unit). Though, on the ground, the EU Delegation promotes the EU financial assistance provided to Tunisia as a *whole package* to demonstrate their aggregate size, and there is no distinctive communication plan for specific instrument (i.e. whether the MFA or some budget support programs such as

[147] MFA to Georgia (2011), MFA to Armenia (2013), MFA to Bosnia and Herzegovina (2014), MFA to Moldova (2015), MFA I and II to Ukraine (2017), and MFA to Kyrgyzstan (2018)

[148] See for instance the press release accompanying the second disbursement of EUR 100 mln in December 2015 available at: http://europa.eu/rapid/press-release_IP-15-6085_en.htm

PARs[149]). The evidence gathered so far suggests that the cooperation between DG ECFIN and EU Delegation in promoting the MFA I was smooth and efficient.

More generally, the EU image in Tunisia differs from the one of the IMF, even though there has been also some confusion among experts attending the focus group[150]. The Fund has been struggling with some negative perception of its programs in the country[151] and its presence has been sometimes depicted as intrusive and imposing unwanted policies on sovereign government. This is somehow not surprising given the sensitivity of some of the reforms addressed by the fund (i.e. energy subsidies, optimisation of the wage bill and tax reforms). In this context, the anecdotal, albeit consistent evidence[152], suggests that the perception of the EU is more positive, and the Community is seen more as a neighbouring partner with long standing engagement and close ties. The same anecdotal evidence suggests that the EU policies with which the block is most frequently associated are trade policies.

There has been a consensus among the NGOs that took part in the focus group that neither the government nor the local media have made a serious effort to explain thoroughly the nature and the purpose of the conditionality. In this context, the focused communication activities surrounding some specific and carefully selected MFA conditions conducted by the EU Delegation could be potentially considered.

7.2.6 Monitoring process

As for typical MFA operations, field missions led by DG ECFIN staff constituted a primary tool for monitoring the MFA operation. These took place at the time of the negotiations of the EU MFA, and during the implementation of the specific conditions. There were in total four DG ECFIN missions that took place between the ratification of the MFA by Tunisian Parliament in early 2015 and the closure of the operation. The missions typically comprised the meetings with the EU Delegation, Tunisian authorities (notably the responsible bodies overseeing the implementation of specific reforms) and the international donors, in particular, IMF and the WB.

The key outputs of the monitoring process were mission reports prepared by DG ECFIN.

The EU Delegation in Tunis was also involved in the monitoring process, mainly in the form of logistical support (i.e. arrangements preceding field missions), the provision of relevant data and their own interpretation of the progress made in relation to the implementation of the MFA conditions.

DG ECFIN flagged some considerable issues as regards to the timely provision of the macro-economic and financial data (outlined as an obligation of Tunisian authorities, as per Annex II of the MoU). Rather than being provided on a monthly / quarterly basis, some key variables were submitted more than 2 years after the commencement of the operation. More generally, DG ECFIN and the EU Delegation pointed also to some weaknesses in the coordination of the MFA on the Tunisian side led by the MDIIC

[149] Programmes d'Appui á la Relance

[150] Interestingly, some participants of the focus group stated that for some Tunisians the MFA and IMF tend to get mixed due to an interchangeable use of the French and Anglo-Saxon abbreviations with very similar pronunciation: AMF (*Assistance Macro-Financaire* in French) vs IMF (*International Monetary Fund* in English.

[151] See for instance Jihen Chandoul, January 2018. The IMF has chocked Tunisia. No wonder the people are protesting. Available at: https://www.theguardian.com/commentisfree/2018/jan/17/imf-tunisia-people-rioting-2011-economic-reforms

[152] Including also the interviews with the Ministry of Finance, the Ministry of Development, Investment and International Cooperation, Central Bank of Tunisia, local experts and the donors themselves.

concerning, inter alia, securing the meetings with the relevant national stakeholders involved in the reports and their timely and substantiated updates which in turn was affecting somehow the efficiency of the monitoring.

8 EU added value

Question 5: *What was the rationale for an intervention at EU level and to what extent did the MFA operation add value compared to other interventions by other international donors? Did the operation actually lead to the expected impacts and added value of international cooperation, and what can be learnt for future operations?*

Judgement criteria

- Financial added value - the availability of MFA on highly attractive terms generated budgetary savings for Tunisian authorities
- EU Member States would not have been able to mobilise resources of a similar nature (in terms of size and form) and / or within the same timescale in absence of the MFA
- MFA reinforced the government's commitment to socio-economic reform
- EU had a discernible influence on the choice and design of reforms promoted by other actors
- Leverage in pulling together and accelerating a multi-donor package
- Evidence of signalling and confidence building

8.1 Financial added value

The main attractiveness of the MFA loan versus alternative sources of financing was its highly concessional terms, which have generated significant fiscal savings (see Section 6.1.2) for the Government of Tunisia. The MFA loan allowed the Tunisian authorities to pursue a more gradual fiscal adjustment at a time the social and political tensions were not conducive for a very rapid stabilisation path.

The financial added value of MFA operations also derives from the fact the EU can mobilise and coordinate resources at a scale and under a form that individual Member States could not. EU institutions (EC, EIB) ranked first among top donors to Tunisia over the period 2011-2017. There are five individual Member States appearing in the top 10 providers of Official Development Assistance (ODA)[153], namely France, Germany, Spain, Italy and UK, as illustrated in Table 22. Yet, rapid review of available data shows that for some of those Member States the assistance has predominantly a form of project support i.e. GIZ for Germany[154] and DFID for the UK[155], which is not comparable to either balance of payments or budget support. The AFD from France did contribute in the form of budget support but only to the first PAR programme just after the Revolution[156], while there was no budget support from it as part of subsequent assistance.

The extent to which Member States would have, in the absence of MFA, been willing to increase their assistance to Tunisia is difficult to gauge. Certainly though, such assistance would not have come in the form and the size offered by the MFA.

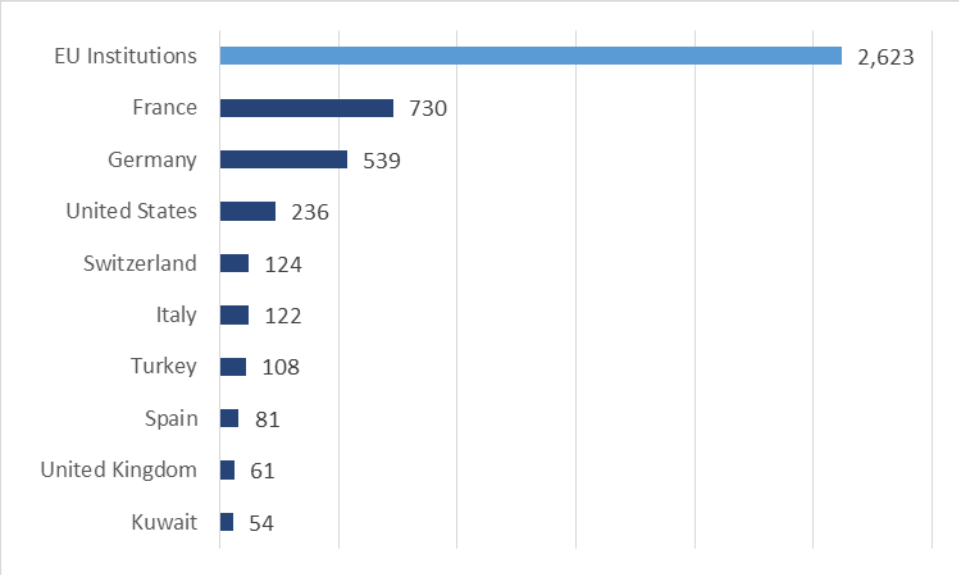
[153] OECD, ODA definition. Available at: http://www.oecd.org/dac/stats/officialdevelopmentassistancedefinitionandcoverage.htm

[154] GIZ, 2018. Tunisia – assistance. Available at: https://www.giz.de/projektdaten/index.action?request_locale=en_EN#?region=3&countries=TN

[155] UK, 2018. DFID assistance in Tunisia. Available at: https://www.gov.uk/world/organisations/dfid-middle-east-and-north-africa

[156] AFD, 2015. Tunisia. Available at: https://www.afd.fr/sites/afd/files/2017-09/Tunisie-plaquette.pdf

Table 22. Top providers of Official Development Assistance to Tunisia, Total over 2011-2017, disbursement data, USD million



Source: OECD statistics

8.2 Social added impact

In addition to the preconditions of respecting democratic mechanisms, the rule of law and human rights mentioned again in recital 17 of the 2014 Decision[157], MFA I included conditions on SSN reforms. Despite the initial commitment from the authorities to reform SSNs back in 2012, the reforms took longer than planned to be implemented (i.e. launch of the survey with a three-year delay) for various reasons, most notably a lack of capacity, and the need to build consensus (see case study for further information).

While the technical assistance was key notably to address the technical capacity issues, MFA I's Action 2 and 6 had a politically reinforcing effect, contributing to the sustained mobilisation of the authorities around this reform area.

8.3 Reinforcement of government commitment to reforms

MFA conditions had an operational and/or political reinforcing effect in several reform areas. The degree of the reinforcing effect of the MFA, however, varied across conditions.

In certain reform areas, MFA added additional endorsement to the reforms driven by the IMF (i.e. financial sector) and the WB (i.e. SSN reforms). It was justified to give those reform further push, given their importance and the historical delays in their progress. In a context of political transition marked by the capacity issues of Tunisian institutions, it has been also crucial from a donors' coordination point of view that priorities are set and the number of reform areas promoted across all donors remains manageable (the need to avoid overwhelming the young Tunisian institutions).

There were also areas where MFA conditions promoted reforms that were not addressed by other donors. And here again, the added value of MFA conditions varied across areas.

[157] European Parliament (2014) Decision no 534/2014/EU of the European Parliament and of the Council of 15 May 2014 providing macro-financial assistance to the Republic of Tunisia

- In three areas (statistics, PFM and trade), MFA conditions provided further leverage to reform efforts promoted under some EU budget support operations. The reform conditions attached to EU budget support operations are typically demanding and added impetus to reinforce reform commitment are usually welcome given the long-term nature of the reform process. In addition, there is the possibility to design conditions which target different steps of the same overall process and this can be perceived as a good way to capitalise on the MFA. More specifically:
  - In the statistics area, MFA specifically pushed for the preparation of the Charter, a step which must have been useful in meeting variable tranche indicator on availability/ quality of statistics placed under PAR 4 programme;
  - In the area of external audit, progresses have been more difficult. The MFA condition is believed to have played a critical politically reinforcing role. The introduction of conditions linked to the Law on the Cour des Comptes both in MFA operation and PAR programmes helped in emphasizing the importance of the reform and gave a leg-up to supporters of the reform within Tunisia. The EU continues to use its leverage through MFA II to reduce the risk of backtracking and is currently calling for the Law on the Cour des Comptes to be approved by the Parliament;
  - In the trade area, despite the need to grant a waiver for Action 8, there has been some progress made. This is a clear-cut case where the reform would not have been undertaken by the authorities in absence of the MFA, EU sectoral budget support and, above all, EU funded twinning projects.
- In the case of regime forfaitaire, the MFA I was the only instrument promoting this reform. Yet, the IMF being aware of it was using this as an argument in continuous discussion with the authorities related to the general overhaul of the tax system.

8.4 Influence on reforms promoted by other actors

The level of coordination with the international donor community was considerable. As noted under section 6.2, there has been a high degree of reform interdependence/ cross-conditionality, especially in the areas of SSN and financial sector. As such, the MFA gave additional leverage for the advancement of reforms seen as key at the EU and international level, but where progress was not materializing fast enough.

8.5 Signalling effect to civil society and the general population

As highlighted in Section 7.2.5, the visibility of the MFA is limited to the restricted circles of government officials, NGOs and some socio-economic pundits. As stated by the EU Delegation, it has not conducted any communication activities focused on the MFA specifically, but instead it has typically blended it with the information about broad EU financial support to Tunisia provided over recent years.

The discussions with the local experts and NGOs revealed that generally there seems to be also some mild and yet consistent scepticism about the support programs of some donors. The rather negative image of the IMF appears sometimes to extend to other donors, including the EU. Sometimes the reforms are perceived as being imposed from outside and having no impact, at least in the short term, on the immediate concerns and priorities of the Tunisian citizens in terms of social equality or employment. Focus group participants generally agreed that the media have a far greater role to play to inform citizens that Tunisia endorses the same reform programme and conditionalities are in the long-term interest of the country.

Overall, the MFA I operation could trigger some signalling effect for some actors from the local civil society. The same (direct) effect for the general public is unlikely.

8.6 Confidence boosting effect on the private sector

The study has conducted an analysis of Moody's communication focusing on any indication of the evidence that would suggest that Tunisia's sovereign rating hinged (at least to some extent) on the assumption of the MFA being disbursed. While this is not the case, the credit rating agency attached a considerable weight to the IMF program as one of the key factors conditioning the rating. More generally, some interviewees in Tunisia recognised that MFA, as one part of the whole EU package, has sent out a clear signal to general public but also business and investor community, that Tunisia will be supported.

Nonetheless, there has been a consensus that the mobilisation of the MFA I has not translated into confidence boosting effect for the private sector, also given a very limited awareness about the instrument, and the absence of the direct link between MFA and the additional finance for Tunisian enterprises.

9 Coherence of the MFA

Question 6: *Were the measures of the MFA operation in line with key principles, objectives and measures taken in other EU external actions towards Tunisia?*

9.1 Policy frameworks and principles

Tunisia and the EU have longstanding relationships initiated in 1976. Since the 90s, EU and Tunisia fostered political and trade relationships that enabled Tunisia to benefit from assistance for political and economic reform and to open its trade border to the EU market.

In 1995, the signature of an **Association Agreement** (AA) between the EU and Tunisia represented a key milestone. The AA aimed at providing an appropriate framework for political dialogue, allowing for the development of close relations, and to promote trade and the expansion of economic and social relations, also aiming at gradually establishing the liberalisation of trade between the EU and Tunisia.[158] The free trade area (the first between the EU and a Mediterranean partner), as defined in the agreement, was completed in 2008.[159]

Since May 2004, Tunisia is part of the **European Neighbourhood Policy** (ENP). Through the European Neighbourhood Instrument (ENI), the EU strongly supports the country's economic and political reform.[160]

Since the 2011 Revolution, the EU has been the key partner supporting the country's political transformation and revival of its ailing economy. EU assistance to Tunisia has increased around twofold post revolution to support the country's political transformation and to contribute to social and economic stability (see also Figure 25). The deepened EU -Tunisia relations translated, in 2012, into a "**Privileged Partnership**", and an ambitious ENP action plan for the period 2013-2017[161]. On the one hand, this partnership strengthens the political cooperation between the EU and Tunisia to further develop democracy, rule of law, human rights, justice and security. On the other hand, it strengthens the economic and social integration with the aim of creating a common economic space.[162]

In 2015, the EU and Tunisia started the negotiation on the establishment of the **Deep and Comprehensive Free Trade Agreement (DCFTA)** that should result in Tunisian trade legislation getting close to that of the EU, and subsequently some positive impacts on Tunisian economy, and local population overall.[163]

The **Joint Communication "*Strengthening EU support for Tunisia*"**[164] further reiterates EU's commitment to support newly adopted Tunisia's five year development plan 2016-2020 and help promote a wide set of reforms including those fighting high youth unemployment, reducing social disparities, supporting civil society and public

[158] http://trade.ec.europa.eu/doclib/docs/2006/march/tradoc_127986.pdf

[159] http://europa.eu/rapid/press-release_MEMO-17-1263_en.htm

[160] https://ec.europa.eu/neighbourhood-enlargement/neighbourhood/countries/tunisia_en

[161] Relations Tunisie – Union Européenne: un partenariat privilégié. Plan d'action 2013 – 2017. https://eeas.europa.eu/delegations/tunisia/documents/press_corner/plan_action_tunisie_ue_2013_2017_fr.pdf

[162] https://eeas.europa.eu/sites/eeas/files/plan_action_tunisie_ue_2013_2017_fr.pdf

[163] https://eeas.europa.eu/headquarters/headquarters-Homepage/16047/relations-between-eu-and-tunisia_en

[164] EC, 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

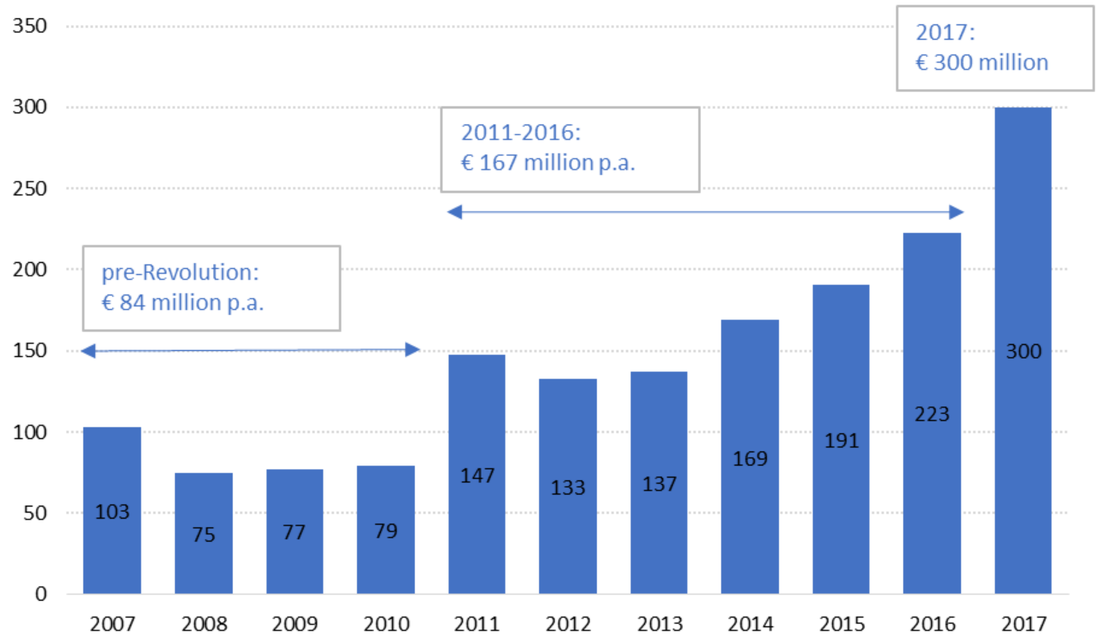
administration reform, better managing migration and mobility, fighting corruption and addressing security problems.

Besides, the Joint Communication launched a new EU-Tunisia Youth Partnership[165] highlighting the importance given to the issue of young people in the EU-Tunisia relations and paves the way for opening or strengthening Tunisia's participation into a **number of EU programmes including Horizon 2020 Research and Innovation Programme, Erasmus+ and Creative Europe**.[166]

9.2 EU financial cooperation with Tunisia

The EU assistance to Tunisia[167] increased markedly[168] since the 2011 Arab Spring reaching the exceptional levels of EUR 300 million in 2017 as stated in the Joint Communication.

Figure 25. EU external aid to Tunisia, commitments, EUR million



Source: Annual Reports on the implementation of the European Union's instruments for financing external actions. Note: The data refers only to external aid financed through the EU budget. It does not include bilateral aid coming from Member States.

The EU has been deploying various instruments supporting the implementation of the Tunisian democratic and economic transition and contributing to the country's fiscal stability[169]. Much of the EU's assistance provided in the form of grants, comes from the

[165] https://eeas.europa.eu/headquarters/headquarters-homepage/16727/node/16727_en

[166] European Commission, 2018. The EU-Tunisia Partnership also helps boost Tunisia's economy. Available at: https://ec.europa.eu/neighbourhood-enlargement/news_corner/news/eu-tunisia-partnership-also-helps-boost-tunisia%E2%80%99s-economy_en

[167] EU Budget

[168] Around two folds when it comes to grants only when comparing the period 2011-2016 compared to 2007-2010

[169] https://eeas.europa.eu/sites/eeas/files/communication_from_commission_to_inst_en_v6_p1_859678-2.pdf

European Neighbourhood Instrument (ENI)/ the European Neighbourhood and Partnership Instrument (ENPI).

The ENPI/ ENI grants focussed on the following three priority sectors during the period 2014-2016[170]:

- Socio-economic reforms for inclusive growth, competitiveness and integration;
- Strengthening fundamental elements of democracy; and
- Sustainable regional and local development.

Alongside the above priority sectors, the programme also included support for capacity development and civil society. A new programming document was adopted in August 2017, covering the period 2017-2020[171].

Under the ENPI/ ENI, the EU provides project support but also budgetary assistance both under general and sectoral programmes[172].

Tunisia is also eligible for the "more for more" incentive mechanism, the so called "Umbrella" funds, a mechanism which rewards progress made in terms of reforms. In 2014, Tunisia was the first recipient of Umbrella funds with an amount of EUR 50 million, then followed by an allocation of EUR 71.8 million in 2015, EUR 90.5 million in 2016 and EUR 95 million in 2017.

Tunisia also benefits from funding under the EU Emergency Trust Fund for stability[173] which seeks to address the root causes of irregular migration and displaced persons in Africa.

In addition, Tunisia also benefits from the blending programmes adopted under the Neighbourhood Investment Facility/Platform[174].

Other funding sources include funding under several thematic instruments and programmes including: the European Instrument for Democracy and Human Rights, the Instrument contributing to Stability and Peace, or the thematic programmes of the Development Cooperation Instrument such as Civil Society Organisations and Local Authorities in development and the geographic programmes such as the Migration and Asylum component. In 2014, Tunisia also benefitted from a European Election Observation Mission that is also likely to take part in the upcoming elections.

The committed MFA I and II funding comes on top of the above-mentioned grants, amounting to a total of EUR 800 million.

Aside from above, the EIB remains the largest lender in Tunisia with total financing reaching already EUR 2.3 billion since 2011[175]. In 2015, 2016 and 2017 the value of signed EIB project financing in each year stood at EUR 200 million, EUR 400 million and

170 https://ec.europa.eu/europeaid/sites/devco/files/ssf-2014-2015-tunisia_fr.pdf

171 https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/ssf-tunisia-c_2017_5637_1_annex_fr_v1_p1_944238.pdf

172 ECA, 2017. EU assistance to Tunisia. Available at: https://www.eca.europa.eu/Lists/ECADocuments/SR17_3/SR_TUNISIA_EN.pdf

173 https://ec.europa.eu/trustfundforafrica/region_en

174 See for instance, NIF, 2016. Operational Annual Report. Available at: https://ec.europa.eu/neighbourhood-enlargement/sites/near/files/nif-oar2016_en_200617_web_version.pdf

175 EIB, 2018. Financed projects – Tunisia. Available at: http://www.eib.org/projects/loan/list/?from=2011&region=5&sector=&to=&country=TN

EUR 390 million respectively[176]. At the "Tunisia 2020" international conference organised in November 2016[177], the EIB committed further to continuing its support to the transformation of Tunisia through the implementation of its development priorities to the tune of EUR 2.5 billion by 2020[178].

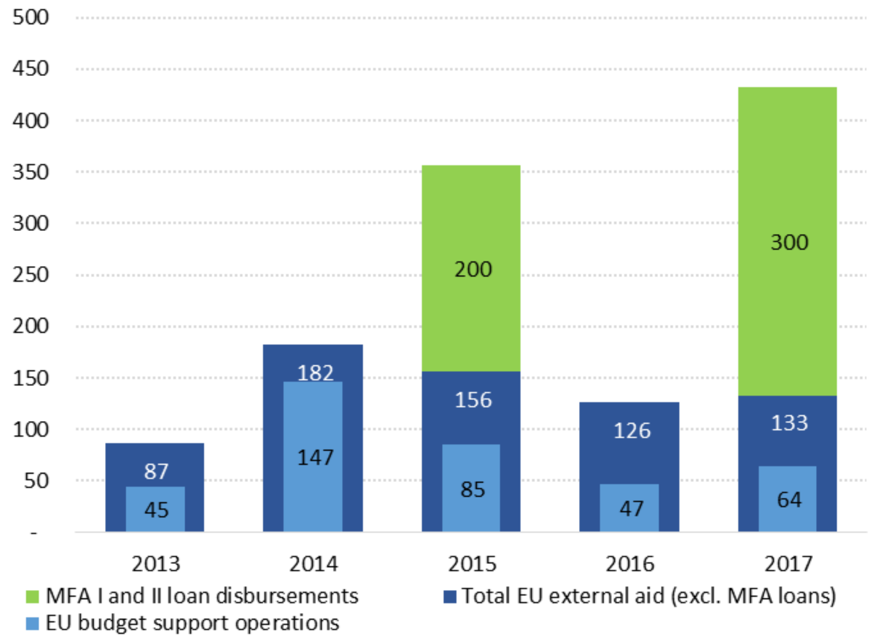
9.3 Coherence with other EU programmes and initiatives

9.3.1 MFA in the context of the overall EU budget support package

Figure 26 puts MFA disbursements in perspective with total EU external aid and EU 'budget support' assistance exclusively. While all types of aid are coherent elements of the broader support provided to Tunisia, only budget support type of assistance is meant to stabilise the macro-economic situation while encouraging the reform process.

Overall over 2013-2017, EUR 500 million were disbursed via MFA operations (MFA I and MFA II combined) while budget support programmes amounted to EUR 388 million.

Figure 26. EU external aid to Tunisia, by type, and MFA, 2013-2017, in EUR million (disbursement data)



Source: Annual Reports on the implementation of the European Union's instruments for financing external actions and 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/tunisia_en

[176] EIB, 2018. Financed projects – Tunisia. Available at: http://www.eib.org/projects/loan/list/?from=2011&region=5&sector=&to=&country=TN

[177] EIB, 2016. Tunisia 2020: The EIB announces EUR 2.5 bln of exceptional support for Tunisia. Available at: http://www.eib.org/en/infocentre/press/releases/all/2016/2016-310-la-bei-annonce-un-soutien-exceptionnel-de-2-5-milliards-deuros-a-la-tunisie.htm

[178] EIB press release. Tunisia 2020: The EIB announces EUR 2.5bn of exceptional support for Tunisia, 29 November 2016. Available at: http://www.eib.org/en/infocentre/press/releases/all/2016/2016-310-la-bei-annonce-un-soutien-exceptionnel-de-2-5-milliards-deuros-a-la-tunisie.htm

Note: The data refers only to external aid financed through the EU budget. It does not include bilateral aid coming from Member States.

The most sizable budget support programmes implemented in Tunisia are known as Programmes d'appui à la relance (PARs). Since 2011, there has been five consecutive PARs (see Box 6).

Box 6. Overview of the PARs

The PAR programmes are general budget support programmes running for a maximum of two years, to which the EU contributed in a grant form (unlike other donors contributing to PAR-1 and PAR-2 who provided loans). The first two editions were funded together with other donors, namely the World Bank, the AfDB and the AFD for PAR-1 and the World Bank and the AfDB for PAR-2. PAR-3, PAR-4 and PAR-5 are EU stand-alone operations. The EU 'more for more' initiative also added significantly to the funds available for the PAR programmes.

Table 23. Overview of PAR programmes (EUR million)

PAR programme	Year	Overall allocated amount	Extra EU 'more for more' funds allocated to PAR programmes
PAR1	2011	100 (EU contribution) 1000 (overall budget)	10
PAR2	2012	68 (EU contribution) 720 (overall budget)	0
PAR3	2013	110 (EU contribution and overall budget)	45
PAR4	2014	100 (EU contribution and overall budget)	47
PAR5	2015	70 (EU contribution and overall budget)	53
Total		**448** (EU contribution)	**155**

Source: ECA, 2017. EU assistance to Tunisia. Available at: https://www.eca.europa.eu/Lists/ECADocuments/SR17_3/SR_TUNISIA_EN.pdf

Under PARs, like under any budget support programmes, disbursements are conditional upon pre-agreed reform progress[179]. Over the five programmes, the conditions covered a wide range of areas, including: (i) transparency, democratic participation, justice and the fight against corruption, (ii) public finance, (iii) regional disparities, (iv) unemployment and social inclusion, (v) micro-finance, and (vi) economic growth.

The remaining budget support programmes under which disbursements were made over 2013-2017 consist of sectoral ones, in the areas of education (PEFESE and EMORI),

[179] In addition, to be eligible for the budget support programmes, the following eligibility criteria need to be met: (i) a well-defined national or sectorial development or reform policy and strategy; (ii) a stable macroeconomic framework; (iii) good public financial management or a credible and relevant programme to improve it; (iii) transparency and oversight of the budget (budget information must be made publicly available).

competitiveness (PACT), water (PAPS'eau), Budget Management by Objectives (PA GBO), decentralisation (CAP2D), and public administration reform (MAPU). Those sectoral programmes tended to focus on reforms in specific areas/sectors not covered by MFA I, at least at the sub-area level, e.g. focusing on different aspects of PFM reforms. As such the potential for synergies with MFA I is limited, although a positive division of role can be highlighted.

The coherence of MFA with the budget support provided under the successive PARs is discussed under Section 9.3.2 while the coherence with the subsequent MFA operation (MFA II) is discussed under Section 9.3.3.

9.3.2 MFA and PARs

A detailed mapping of conditions under the MFA I versus PARs shows that there is some degree of consistency in number of the reform areas with MFA I either following up on conditions from the earliest PAR programmes or PAR programmes following up on MFA conditions.

Table 24 outlines specific areas (highlighted in blue) where synergies can be observed.

Table 24. MFA I and PARs conditionalities – mapping

MFA I Conditionality	PARs
Tax reform- regime forfaitaire (adoption of a decree)	**Not covered by PAR programmes,** NB: PAR 4 - only some policy implementation conditions in relation to tax administration reform (set up of a Large Taxpayer Unit)
SSN - households survey	**PAR conditions pre-dating MFA I conditions pursuing the same aims**, namely: PAR 1: Policy implementation conditions on definition of selection criteria which could be used to determine access to social programmes (with an aim to increase the coverage and targeting of those programmes)
SSN – database / cash transfer support programme	**PAR conditions pre-dating MFA I conditions pursuing the same aims**, namely: PAR 2: Policy implementation condition (adoption of a circulaire) on setting up an integrated database gathering information on the beneficiaries of all social programmes (with an aim to track beneficiaries and improve targeting of the programmes)
Financial sector- New Central Bank Law (submission to Parliament)	**All PARs: Some Policy implementation conditions / indicators in relation to the financial sector – however in relation to different sub-areas than MFA I** (mostly in relation to public banks, prudential issues and microfinance.)
Financial sector- New Banking Law (submission to Parliament)	
Statistics - Adoption of a national chart of public statistics	**PAR conditions post-dating MFA I conditions and pursuing the same aims,** namely: PAR 4: Policy implementation condition linked to adoption of the Statistics Law by Council of Ministers + variable tranche indicators on availability/ quality of statistics and staffing levels.
PFM – external audit - law on the Cour des Comptes (Submission to Parliament)	**PAR conditions pre-and post-dating MFA I conditions pursuing the same aims**, namely: PAR 1/2: Policy implementation condition related to publication of reports produced by CdC for the years 2005 to 2009 PAR 4: Policy implementation condition linked to adoption of the law on the Cour des Comptes by the Parliament (not met, waivered) + adoption of Organic Budget Law (which inter alia tasks the CdC with the realization of performance audits);

	PAR 5: Particular prior condition on the adoption of the Organic Budget Law + two variable tranche indicators on audit modernisation by CdC
Trade – ACAA/ technical regulations / market surveillance	**Not covered in PAR programmes,** Some related measures in the PAC and PACE sector budget support programmes on trade facilitation

9.3.3 MFA I and MFA II

The mapping of MFA I and MFA II presented in the Table 1 in Section 3 illustrates well that many conditions under MFA I (in the tax, PFM, SSN and financial sectors) were subsequently taken further as part of MFA II – thereby concentrating efforts on pushing for steady progress in very similar reform areas.

9.4 The extent to which the MFA operation complemented external/international support programmes

The EU MFA is generally intended to supplement the assistance provided by the IMF as well as other donors. Specifically, its disbursement is generally conditional upon "a satisfactory track record in the implementation of the […] current Stand-By Arrangement agreed between the Country and the International Monetary Fund" as well upon a "positive assessment […] of progress made with respect to economic stabilisation and structural reforms."[180] For this reason, MFA conditionalities often complement the reform package associated with the IMF's arrangements with beneficiary countries. Further, the three successive WB's Governance, Opportunities and Jobs Development Policy Loans (GOJ DPLs) supported reforms in related areas with an aim to (i) improve transparency and accountability; (ii) signal to investors that Tunisia was creating a level playing field for private sector-led growth; and (iii) take immediate actions to tackle the plight of the unemployed and the poorest and most vulnerable.

Table 26 overleaf provides a comparison of reform areas driven by the EU, via the MFA, and the IMF and the WB, through their respective support programmes in Tunisia.

It shows that there are two main areas with synergies among donors, namely financial sector and SSN. Some cases of cross-conditionalities at same or different points in time can be observed.

- For instance, in the case of the database (MFA Action 2 and implicitly 6 of the MFA), the IMF introduced similar condition calling for an "establishment of a databank on vulnerable households" as from the beginning of the EFF programme (in June 2016). The World Bank was providing a crucial technical assistance in parallel.
- When it comes to the cash transfer support programme to compensate vulnerable households affected by the reform of the energy price subsidies, while the MFA called for the adoption or reinforcement of such programme (Action 6), the IMF required the "submission to the Council of Ministers of a *new* targeted household support program to accompany the reform of the generalized energy subsidies", from the beginning of the SBA until the fourth review[181].
- In relation to the central bank law, the IMF had among its structural benchmark in its 1st and 2nd review (May 2014) the "Submission to the CBT board of the draft of the new central banking law in line with best international practices" while the EU had for the 2nd tranche of the MFA (disbursed December 2015) the condition that the central banking law meant to be submitted to the Parliament.

In other reform areas, there is more of a split of roles.

- For example, investment climate is an area addressed by both IMF and WB but not by MFA[182].

[180] European Commission (2014) 'Memorandum of Understanding between the European Union and Tunisia'

[181] The plan of setting up a new programme was abandoned meanwhile.

[182] It is addressed under MFA II, under labour market

- IMF focuses on several aspects of PFM reforms while the MFA focuses exclusively focuses on external audit and WB on transparency and public procurement.
- Tax reform is also widely addressed by the IMF (in relation to the Large Taxpayer Unit for instance) but there is nothing specifically on the regime forfataire in IMF programmes.

At the level of specific conditions, the desk research and the interviews with the WB and the IMF conclude that there may have been five specific conditions where the EU was the sole promoter of the reforms, namely the condition related to the *regime forfataire* and the external audit (CdC) as discrete pieces of broader reforms promoted by the IMF and WB, the two trade related conditions and the condition on statistics. For the remaining four conditions, the EU was not the sole partner pushing for the reform (Table 25).

Table 25. Detailed cross-conditionality with the IMF/WB

Condition/ Area	Donors involved
Action 1 [regime forfataire]/ Tax	EU only
SSN/ Action 2 [database]/ SSN	IMF (one of the structural benchmarks) WB (provided the technical assistance)
Action 3 [law on the Central Bank]/ Financial Sector	IMF (one of the prior action)
Action 4 [national statistics]/ Statistics	EU only (to be confirmed)
Action 5 [Cour de Comptes]/ PFM	EU only
Action 6 [cash transfer support program]/ SSN	IMF (one of the structural benchmarks) WB (provided the technical assistance)
Action 7 [banking law]/ Financial Sector	IMF (one of the structural benchmark)
Action 8 [norms homologues]/ Trade Policy	EU only
Action 9 [legislation on market surveillance]/ Trade Policy	EU only

Source: IMF and WB

Table 26. Detailed comparison of MFA, IMF and WB conditionalities

	EU	IMF		WB			
	MFA	**SBA 2013-2015**	**EFF 2015-2019**	**GOJ-1**	**GOJ-2**	**GOJ-3**	**Donor delivering technical assistance key for the achievement of condition / entities involved in technical dialogue [lead ones, not exhaustive]**
Education sector				V			
Energy sector - ad-hoc increases in fuel prices			V				
Energy sector - fuel pricing formula		V	V				
Energy sector - SOEs		V					
Financial Sector - AMC / NPLs of tourism sector		V					
Financial Sector - bank supervision / prudential regulation		V	V	V			
Financial Sector - banking law	V	V	V				
Financial Sector - central bank law	V	V	V				
Financial Sector - public banks		V	V	V	V	V	
Health sector				V			
Investment climate - Investment Code		V	V				
Investment climate -reform strategy				V		V	
Investment climate -telecom sector				V	V	V	
Labour market				V			
Monetary and exchange rate policy		V	V				

	EU	IMF		WB			
Pension reform			V				
PFM - anti-corruption			V				
PFM - budgetary cycle		V	V				
PFM - debt strategy			V				
PFM - External audit	V						EU funded twinning projects
PFM - Organic Budget Law			V				
PFM - public procurement					V		
PFM - Transparency				V		V	
Public administration reform - cap on recruitments			V				
Public administration reform - other			V				
Public administration reform - Reform strategy			V				
Public administration reform - Tax administration reform		V					
Social Sector Services - Accountability					V		
SOEs		V	V				
SSN - database on vulnerable households	V		V				WB (MENA Transition Fund)
SSN - new targeted household support program in relation to reform of energy subsidy	V	V					WB (MENA Transition Fund)
Statistics - chart	V						ESTAT
Tax reform - corporate tax reform		V	V				
Tax reform - New tax code		V					
Tax reform - regime forfaitaire	V						

	EU	IMF	WB	
Tax reform - Single Treasury accounts		V		
Tax reform - tax reform plan		V	V	
Trade policy	V			EU funded twinning projects

Source: ICF review of documentation

As for the past MFA operations, the donors prised the ability of the EU to exercise 'political pressure' at the high decision-making level to advance the progress in reforms. And indeed, this ability complements the efforts of the IMF and WB which are by definition technical institutions and at least in theory abstain from political actions in their activities.

10 Social Impact Analysis

10.1 Introduction

This overarching aim of the Social Impact Analysis (SIA) was to use evidence from social indicators and primary data to assess the impact of Macro Financial Assistance (MFA) on the social situation in Tunisia. The analysis considered both direct impacts on compensation for households vulnerable to energy price subsidy reforms and indirect impacts across a broad range of social indicators.

For the purpose of the analysis, direct effects are defined as impacts which stem from conditionalities outlined in the Memorandum of Understanding corresponding to the MFA. Indirect effects are defined as being those which stem more broadly from wider macroeconomic stability.

With regards the timing of the support, the implementation period of the MFA is defined to be 2015-2017.

The full Social Impact Analysis is presented in Annex 6. Direct effects are analysed in Section A6.2 of this Annex. The part seeks to understand – through a data-driven analysis – the extent to which vulnerable households have been compensated by the government for higher energy prices. The section analyses developments to social security in Tunisia, and briefly reviews evidence of Tunisia's energy price subsidy reforms before and after the MFA operation. The analysis primarily focusses on three main policy aims:

- improved targeting of social assistance as a result of the unified SIN database;
- the continuation of social protection reforms; and
- the cash transfer support programmes compensating vulnerable households affected by the reform of energy policies.

Evidence from stakeholder interviews were used in conjunction with available empirical data to form an assessment of progress made by the Tunisian authorities. Challenges associated with implementing the main actions were discussed and, to the extent that it is possible, evidence of tangible impacts were consulted. The outcomes discussed in Section A6.2 can be considered to be the result of MFA operation. This is because the policies investigated are those which are specified in the Memorandum of Understanding associated with the MFA.

Trends in variables relating to the macroeconomic situation (indirect effects) were also analysed in Section A6.3 of the Annex. The aim was to assess developments in socio-economic variables prior to, and (where possible) during/after the MFA period. Section A6.3 discusses also changes to labour market performance such as wage growth and unemployment and the developments to nominal variables which impact the affordability of goods and services. Section A6.4 discusses impacts to key social outcome variables such as national poverty levels, living standards and income inequality.

The counterfactual analysis is provided in Section A6.5, which aims to establish what the social situation in Tunisia might have been in absence of MFA operations and in absence of MFA operations and IMF support.

Summary of findings from the SIA are presented in the main body of the report below.

10.2 Summary of findings

The analysis assessed: (1) the direct effects of Macro-Financial Assistance conditionalities on the social situation in Tunisia; and (2) the indirect effects of MFA operations on government policy and economic stability (as explored in the counterfactual analysis). The analysis considered data published by the IMF and national statistics offices, feedback from stakeholder consultations and evidence available in the literature.

The analysis found that increases[183] in monthly disbursements of the existing social security system, PNAFN[184], coupled with the expanding household coverage of this policy are likely to have compensated households for the reduction in energy subsidies *on average*. This finding is predicated on evidence of consumer fuel price increases, which have been relatively modest[185]. However, given the shortfalls in the targeting of PNAFN, there is no guarantee that vulnerable households are receiving the support required. Indeed, until the social security database is operationalised and used to implement well-designed policies, the targeting is likely to remain fundamentally weak.

While Tunisian authorities have made efforts to bolster the existing social security system, progress in improving the targeting of social assistance has been slow. The Tunisian Ministry of Social Affairs has taken steps towards better-targeted social assistance by attempting to establishing a SIN database, to which 70 per cent of Tunisians are now registered. This has been the result of a large-scale survey conducted since December 2015. Improvements to the technical capacity to monitor and distribute social support are arguably a vital step towards better policy implementation. In this regard, the technical assistance provided by the World Bank was invaluable.

The long-term impact of the enhanced SSN system – including the dynamic database – could therefore be significant. The current system is based entirely on paper-based systems with high margin for error and limited ability to cross-access the database across Ministries. The database, which is likely to be operational in the coming year, could facilitate the design and implementation of better-targeted social security policies (e.g. cash-transfers) in the future.

However, plans to introduce such policies[186] have not yet come to fruition. Since the start of the MFA, no new cash-transfer programmes have been implemented, nor is there any evidence of improved targeting of existing cash-transfer programmes in recent years.

Regarding the wider macro-economy, both inflation and unemployment show some concerning signs. Unemployment, although lower than rates observed during the crisis, is still stubbornly high, especially among women and recent graduates. Inflation has also been following an upwards trajectory since 2000, and spiked at 7.8 per cent in June 2018. Unless addressed, this could have considerable implications for the affordability of key household commodities and living standards. The contribution of the MFA financial envelope will be incorporated into the analysis.

A counterfactual analysis was performed to formulate a view of what the social situation might have been in the absence of MFA and/or IMF support. This analysis was based on inputs from various key stakeholders from Tunisian government departments and international institutions such as IMF and the World Bank.

The analysis suggested that, if MFA were not provided but IMF support continued, the indirect effects on the social situation in Tunisia would have been limited. As a market

[183] Monthly disbursements increased from 56.7 dinars to 115 dinars in 2014, and again to 150 dinars in 2015.

[184] Programme national d'aide aux familles nécessiteuses

[185] Average consumer price inflation for electricity, gas and other fuels was 2.3% over 2010-2018 (1.9% over 2015-2018).

[186] "Policies", in this context, refers to: (1) new, targeted cash-transfer programmes; (2) new, targeted, non-cash social assistance; or (3) reformation of existing cash-transfer programmes. It does not refer to the development of the SIN database or technical capacity. Progress in the area of technical capacity has been acknowledged as being positive.

access country, Tunisia would likely have been able to replace the missing funds through a variety of domestic and international sources. Changes to fiscal policy, including public sector pay and employment, would probably not have occurred under this scenario. The public sector wage bill is therefore expected to remain roughly unchanged. Moreover, the absence of the MFA would probably not have destabilised the economy to the extent that the social situation is threatened. Impacts to the social situation would therefore have come through direct channels, namely the MoU conditions relating to the social safety net (discussed above).

If both MFA and IMF support were revoked, then this would have presented an exceptionally challenging situation for the Tunisian authorities, likely triggering a national crisis. The consensus among stakeholders is that the Tunisian authorities would have avoided politically controversial measures at all costs. This means that cuts to social expenditure, public sector pay and employment (and hence the wage bill) would have been ruled out due to the fragile political climate. Instead, some cuts would likely have been made to public investment. The scope to recover funds through such cuts is however modest, given that spending on inessential capital projects is already very low. Under this scenario, Tunisia would probably have borrowed from bilateral donor countries such as Qatar and Saudi Arabia. The rising debt, public cuts and destabilising economy would likely have been felt in Tunisian labour markets, threatening living standards.

11 Debt Sustainability Analysis

11.1 Introduction

The objective of this Debt Sustainability Analysis (DSA) is to evaluate the contribution of the EU's macro-financial assistance (MFA) operation to the sustainability of Tunisia's public debt. This is done by assessing the evolution of key debt burden indicators and macroeconomic variables which affect the path of a country's debt and its capacity to manage that debt sustainably.

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

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

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

According to the IMF, for countries with access to international financial markets, such as Tunisia, once a debt burden indicator breaches its pre-set benchmark, the risk to that country's debt sustainability increases with the level of indebtedness.

By comparing the observed and projected path of these indicators (the baseline case in which MFA was provided) against a scenario in which there was no MFA (the counterfactual case), we can estimate the effect of the MFA programme on the sustainability of Tunisia's debt.

There is limited information on how exactly the MFA funds were spent. However, we do know that budgetary financing was one of the objectives of the programme. In the analysis that follows, we assume that the MFA was used to support government spending in lieu of borrowing from financial markets. In addition, the concessional component of the MFA may have helped to curb additional debt burden associated with higher borrowing costs and debt service.

Our approach to assess the contribution of the EU's MFA to the sustainability of Tunisia's public debt relies on counterfactual analysis in which the possible paths of the debt burden indicators listed previously are evaluated and compared across different scenarios. Specifically, we compare:

- what happened (the baseline scenario),
- what would have happened without the MFA operation but with the IMF programme still in place (Alternative 1: no MFA scenario), and
- what would have happened without either the MFA operation or the IMF programme (Alternative 2: no MFA <u>and</u> no IMF scenario).

A comparison of debt sustainability across these three scenarios provides estimates of the impact of the financial support on the sustainability of Tunisia's public debt.

The summary findings from the analysis are presented under Section 11.2. The full analysis is presented in the Annex 7.

11.2 Summary of findings

In this report we have carried out a debt sustainability analysis to determine the impact that the EU's macro-financial assistance programme had on the sustainability of Tunisian public debt. We have undertaken this exercise within a counterfactual framework in which we compare what was observed and is projected to happen under a baseline scenario against two alternative hypotheses: what would have happened i) if Tunisia had not received MFA funding and ii) if Tunisia had not received either MFA funding or IMF funding.

We find that, if Tunisia had not received MFA funding but retained access to the IMF's rescue programme (Alternative 1), debt sustainability is unlikely to have been adversely affected because there would not have been large changes in many of the variables which affect debt dynamics and therefore sustainability. The most likely outcome would have involved the government replacing the MFA funds by borrowing from international financial markets, leading to an increase in debt due to the higher cost of borrowing from financial markets compared to the MFA's concessional rates. That said, because the MFA was relatively small, this increase in debt would not have been large enough to drastically change the evolution of the debt burden indicators, and therefore Tunisia's public debt sustainability, though we note that the debt-to-GDP ratio in the short term skirted around the 70 per cent threshold that the IMF considers to be potentially problematic.

The Alternative 2 under which Tunisia receives neither the EU's MFA nor IMF funding has the potential for more serious consequences for debt sustainability. The IMF's involvement in providing financial assistance to countries tends to attract other donors. A likely outcome, therefore, of Tunisia not having access to the MFA and IMF programmes is that other multilateral and bilateral donors would not have intervened, with the result being increased risks to Tunisia's debt sustainability and its economy more generally. Many of these donors tend to rely on an IMF programme being in place to ascertain that a recipient country is undertaking the necessary reforms.

Tunisia would have filled the sizable gap left by the missing MFA and IMF funding with a combination of measures, including issuing debt on international financial markets, seeking assistance from partners in the Middle East and implementing fiscal adjustments in the form of cuts to public investment, where scope for this existed.

Comparing the course of events under the three scenarios it is clear that risk to debt sustainability is highest in the third case. In pure financial terms, the analysis does suggest that the MFA made a positive contribution to Tunisia's debt sustainability. Moreover, the provision of EU MFA is likely to have also helped spur additional support from other sources, over and above the financial contribution of the MFA itself. This is dealt with elsewhere in the evaluation.

12 Conclusions

This evaluation assessed, ex post, the contribution of the MFA facility to the macroeconomic and structural adjustment of Tunisia. This involved an examination of:

- Whether the ex-ante considerations determining the design and terms of the operation were appropriate, taking due account of the economic, political and institutional context; and,
- Whether the outcomes of the programme met the objectives.

A multi-methods approach, combining primary and secondary research techniques, was used to answer the evaluation questions. Evidence triangulation, involving the analysis of both quantitative and qualitative data and information from multiple and different sources, was used to increase validity and to draw conclusive findings. It is important to note that certain research methods were more relevant to specific evaluation criteria and constituted the main, though *not* the sole, sources of evidence for answering associated research questions.

For instance, factual data gathered from desk research fed primarily into the assessment of coherence which required a review of past/current EU programmes and support instruments. This is, however, not unusual as it is often unlikely that stakeholders have all of the necessary information at hand and/or are able to discuss these programmes extensively during interviews. As part of this evaluation, the information was therefore sourced from the Commission's own *repertoire* which was generally adequate and helped to supplement information gathered from primary research and/or fill any substantive gaps.

Similarly, interviews with key informants constituted a critical information-gathering tool during the study, in particular in the context of the assessment of the effectiveness of the operation. Such interviews enabled the study team to collect important insights into the MFA operation and its content. The information gathered may have been limited occasionally owing to institutional memory loss / reduced ability to recall (due to the time that has elapsed). Yet, in broad terms, Tunisian stakeholders exhibited high willingness and candidness in sharing their perspectives and good preparedness for the discussions, comparing also to most of the other MFA country recipients evaluated by the study team in the past.

To ensure that these methodological limitations would not have a considerable bearing on the study findings, number of action were taken including:

- Triangulation, to ensure that evidence generated by/from multiple perspectives, methods and data sources were sufficiently appraised and fed into conclusive findings;
- Hypothesis exploration, to allow for multiple hypotheses to be tested and to identify the best, most probable explanation (especially where little evidence was gathered or the evidence collected did not permit a clear-cut conclusions to be drawn);
- Information synthesis, comprising a descriptive account of the data/information gathered as well as critical assessment of the findings (based on the views of key informants as well as those of the study team); and
- Peer-review and validation of findings, to further credibility and validity of the research (by drawing upon the expert knowledge of an expert group and the objective, independent reviews of key stakeholders) and to allow the study team to revise and improve the study findings before publication.

12.1 Conclusions on the design (Relevance) and implementation (Efficiency and Coherence) of the operation

12.1.1 Relevance

12.1.1.1 Size of the assistance

The MFA provided budget support of EUR 300 million. Two tranches totalling to EUR 200 mln were disbursed in 2015 while the last EUR 100 mln tranche came in 2017. These MFA disbursements corresponded to circa 0.5 per cent and 0.3 per cent of GDP in 2015 and 2017 respectively. In historical (and absolute) terms, the size of the MFA I operation to Tunisia has been the third largest MFA operation since 2000.

Compared to the budget assistance provided by other donors over the same period of time, the MFA I exceeded the size of the AfDB assistance in 2015 but was less than a half of what WB deployed over the same year (EUR 455 mln deployed *via* GOJ DPL-2[187]) and circa 25 per cent less compared to the IMF assistance in 2015 (EUR 261 mln *via* SBA[188]). The relative size of the MFA I to the IMF and WB assistance shrank in 2017 while AfDB did not provide any budget support that year as it reached the maximum risk exposure in Tunisia by then.

From the standpoint of the Ministry of Finance, Central Bank[189] and many experts consulted *via* Delphi survey, the size of the MFA I envelope was meaningful, but not critical.

There was a consensus among the key consulted stakeholders that an increase of the MFA size from initially proposed EUR 250 mln to EUR 300 mln was an appropriate decision[190]. Subsequent deterioration of the fiscal stance and external position coupled with the new series of terrorist attacks in 2015 paved the way for the MFA II operation of EUR 500 mln, as well as increase in other type EU financial support including investment volumes of the EIB. Moreover, the MFA formed part of the wider package of EU assistance to Tunisia. Since the 2011 Revolution, Tunisia has received grants worth over EUR 1.2 billion, more than EUR 1 billion of which was provided by the instruments implementing the European Neighbourhood Policy.

Overall, taking also into account the context of the operation and number of other support mechanisms provided by the EU to Tunisia, the size of the assistance was appropriate.

12.1.1.2 Form of the assistance

The form of assistance – loan and / or grant finance – is determined by the application of agreed principles, defined with reference to the *per capita* income of Tunisia, debt sustainability and the eligibility for concessionary finance. These principles were considered in the ex-ante assessment and found to rule out any use of grant financing[191]. The lending terms of the MFA I loan were highly concessional compared to the available conditions on the domestic and international markets both in terms of interests' rate level and maturities.

The form of the overall assistance could therefore be judged as appropriate as well.

[187] WB, 2018. Summary results from the GOJ DPL-2. Available at: http://projects.worldbank.org/P132709?lang=en

[188] IMF, 2019. Transactions with Tunisia. Available at: https://www.imf.org/external/np/fin/tad/extrans1.aspx?memberKey1=970&endDate=2018-07-12&finposition_flag=YES

[189] Interviews conducted during the mission in Tunisia

[190] View expressed for instance by EU Delegation, IMF and WB

[191] The initial request from the Tunisian authorities included EUR 50 mln grant

12.1.1.3 Focus of the reforms

There was a consensus among key consulted stakeholders that all six thematic areas addressed by the MFA conditionality were relevant. Those were in line with the country priorities and backed by a thorough analytical work preceding their selection that was conducted by the DG ECFIN and comprised also the consultations with other donors present in Tunisia, in particular the World Banka and the IMF.

At the level of specific conditions, focus of the most was also (highly) relevant with some emblematic examples such as the reform of régime forfaitaire. Yet, in case of two particular conditions namely the trade related condition concerning the approximation of the industrial compulsory standards with the EU *acquis* and the SSN reform concerning the progress in the establishment of a unified database and targeting system based on a single Social Identification Number, it appears that their focus may have been too broad/ ambitious.

SSN reform has been technically complex and logistically challenging. It tackled a long-lasting problem that required a considerable in-house expertise at the Ministry of Social Affairs, close coordination across donors (i.e. in the context of ongoing technical assistance) and on the ground (implementation of the survey involved more than 2000 social workers), and the successful completion of a number of sequential tasks with some conditioning the progress of others. With the benefit of hindsight, one can see that it was too ambitious to incorporate this SSN reform under a relatively short-term instrument like the MFA.

Similarly, the trade reform related the substantial advancement with the process of converting the existing system of industrial compulsory standards (*normes homologuées)* into a system aligned with that of the EU seemed also too ambitious given, inter alia, its technical complexity and some reduced capacity of the Tunisian institutions involved in its implementation.

Nonetheless, it must be stressed that the dilemma that many donors typically face in terms of striking a balance between the ambitiousness of the conditionality, expectations of the local population and the urgency to progress with a program to ensure swift financial disbursements, amplified by imperfect information on the level of capacity/ ownership of the reforms in a quickly evolving political context, is always tough. And this dilemma has been even tougher in the fragile and volatile context of post-Revolutionary Tunisia.

Overall, the focus of the MFA reforms was found to be right. While some selected reforms were ambitious and arguably surpassed the capacity of the Tunisian authorities, they related to areas were fast and very meaningful improvements have been urgently needed.

12.1.1.4 Timing of the operation

Despite protracted negotiations and ratification of the operation by the Tunisian Parliament and the subsequent time lag between 2nd and 3rd tranche, none of those delays have impaired the relevance of the MFA financial envelope that remained high given the prevailing macro-economic conditions and increasing budgetary needs of the Tunisian state following the terrorist attacks in 2015.

The IMF acknowledged that it had been aware of the difficulty to predict precisely the time of approval and MFA subsequent disbursements given the lengthy and complex approval process. Therefore, this did not affect its operations.

12.1.2 Efficiency

12.1.2.1 Capacity

The study team found some reduced capacity in some Tunisian institutions exposed throughout the design and implementation of the MFA that hindered reforms, though there were also other factors at play.

More specifically, the impaired capacity was partially caused by the funding pressures faced by many of the country's institutions leading to outflux of experienced staff and amplified, inter alia, by challenging political context (frequent changes of the governments), influential vested interests' groups having often a disproportionate say in the policy discussions, and the design of some of the conditions requiring cross-ministerial collaboration that added the difficulty to the task.

Overall, the benchmark used for the assessment of the capacity matters a lot and capacity should be put in the context. Young Tunisian institutions operating in the democratic context since only several years may unsurprisingly struggle. The performance of the state apparatus in neighbouring countries does not stand out compare to the Tunisian one neither. Furthermore, it is also warranted to recognise that the level of ambitiousness of some of the MFA reforms was rather high and there has been also number of other conditionalities promoted by other donors requiring an institutional capacity to implement.

12.1.2.2 Ownership of the reforms

The level of ownership of the MFA operation turned out to be lower than initially anticipated by the European Commission. Other donors like WB and IMF experienced a similar issue for their respective support programs.

One of the main impediments to reform ownership was political instability illustrated, inter alia, by very frequent changes of government (more than 10 changes over the period 2011 and 2018) that introduced a considerable short-termism to authorities' planning and commitments, already suffering from a limited political capital and facing pressure to respond to populist measures. Furthermore, the existence of some stakeholders that have enjoyed a disproportionate say in the policy discussions (i.e. UGTT) also affected the ownership level. All this in the context of the highly fragmented Parliament consisting of 18 political parties elected in October 2014 and organised in 8 parliamentary groups.

Some of the reduced ownership had been anticipated by DG ECFIN at the outset of the operation i.e. by adjusting the nature and scope of the conditionality. Yet, discrepancy between the initial expectations and actual ownership level was still fairly high.

12.1.2.3 Monitoring

The field missions led by DG ECFIN staff constituted a primary tool for monitoring the MFA operation. The missions typically comprised the meetings with the EU Delegation, Tunisian authorities (notably the responsible bodies overseeing the implementation of specific reforms) and the international donors, in particular, IMF and the WB. The EU Delegation in Tunis played a central role in the monitoring process providing, inter alia, its own judgment on the progress of the reforms covered by the MFA conditionality.

DG ECFIN and the EU Delegation noted some weaknesses in the coordination of the MFA on the Tunisian side led by the MDIIC related for instance to the set-up of meetings with key stakeholders involved and the timely and substantiated updates on the progress with the conditionality that somehow affected the efficiency of the monitoring.

12.1.3 Coherence

The MFA was well aligned with the broad policy framework guiding the EU – Tunisia relations. It was one of a number of instruments to support the objectives of the Association Agreement, European Neighbourhood Policy (ENP), "Privileged Partnership" and Deep and Comprehensive Free Trade Agreement (DCFTA) still under discussion.

Since the 2011 Revolution, the EU has been a key partner supporting the country's democratic and economic transition. EU assistance to Tunisia has increased around twofold since the Revolution to reach the exceptional level of EUR 300 million in 2017. The MFA thus formed part of a wider package of EU support to Tunisia post Revolution. It was designed to be complementary to other forms of assistance and have synergies in particular with EU budget support. Budget support was provided by the EU in a grant format, most notably via PARs. There is a high degree of consistency in a number of the reform areas between PAR and MFA conditionality. There were cases where MFA I was following up on conditions from the earliest PAR programmes notably in the case of SSN, where very similar formulation was introduced in MFA I since no progress had been made in the meantime. In other cases, PAR 4/5 have pushed progress further in the same areas than MFA conditions (statistics, PFM). There is also a high level of coherence between MFA I and MFA II. Several conditions under MFA I (in the tax, PFM, SSN and financial sectors) were subsequently taken further as part of MFA II – thereby concentrating efforts on pushing for steady progress in the same reform areas.

Finally, as far as external coherence is concerned, the EU-MFA not only contributed to 'burden sharing' with the IMF and other donors in financial terms, but also reinforced reforms promoted by the IMF and World Bank through the use of cross conditionality (SSN, financial sector reforms) and complementary conditions (régime forfaitaire reforms complementing IMF promoted tax reforms and fiscal consolidation).

12.2 Conclusions on the effectiveness and added value of the MFA in supporting macroeconomic and financial stabilisation and structural reform

12.2.1 Effectiveness

12.2.1.1 Progress in terms of macroeconomic and financial stability, including debt sustainability

MFA I MoU made it explicit that the MFA support intended to complement the support and conditions specified by the IMF. The reform conditions for stabilisation set out in the MoU were consistent with agreements established between Tunisian authorities and the IMF. Comparison of reform conditions specified in the MFA with those contained in the IMF SBA and EFF programs confirmed a considerable level of consistency, even though in a few instances the EU pursued come reforms independently (i.e. trade related conditions).

Three MFA disbursements corresponded to circa 0.5 per cent and 0.3 per cent of GDP in 2015 and 2017 respectively.

Available evidence suggests that had the MFA I not been available (Alternative 1), obtaining alternative financing from the international financial markets would have been the most plausible course of action. While the access to the markets remained unconstrained over 2015-2017, the difference in the cost of debt servicing between the MFA I and the foreign borrowing stemming from the higher interest rates for the latter could have reached EUR 110 million accrued over 15 years. Shorter maturities available on the market versus those offered by the MFA would have also added further strains. Keeping in mind some limitations of such analysis, the Debt Sustainability Analysis showed that although borrowing from international financial markets would have led to an increase in debt due to the higher cost of borrowing from financial markets, ceteris paribus, this increase in debt would not have been large enough to drastically change the evolution of the debt burden indicators.

Furthermore, given the fragile socio-political situation and relatively limited political capital of the subsequent governments coupled with strong position of some groups of interests (i.e. trade unions), it seems unlikely that the absence of the MFA would have led to any cuts in public expenditure (including public sector pay and employment), or hikes in taxes. From this perspective, some impacts on the social situation may therefore have come through the conditionality.

In addition, the sole absence of the MFA I would not have led to a deterioration of confidence and hence the implications for the dinar's exchange rate (depreciation) and higher inflation would have been very limited, if at all.

The hypothetical absence of the joint assistance of MFA and IMF support programmes (Alternative 2), combined with AfDB and WB programs due to catalytic effect of the Fund, would have had severe consequences. The combined absence of the IMF and MFA I financing corresponded to EUR 461 mln, EUR 278 mln and EUR 378 mln in 2015, 2016 and 2017 respectively, or circa 1.3, 0.8 and 1.1 per cent of GDP in these three consecutive years. Yet, if the combined assistance of the MFA I, IMF SBA/EFF, WB and AfDB programs had not materialised, this would have resulted in the absence of EUR 1099 mln, EUR 726 mln and EUR 835 mln in 2015, 2016 and 2017 respectively, or circa 3.1, 2.1 and 2.5 per cent of GDP in these three consecutive years

Although Alternative 2 is characterised by high uncertainty and should be interpreted with caution, it is not impossible that faced with the overall gap corresponding to 2-3 per cent of GDP between 2015 - 2017 accounting for the aggregate assistance from the AfDB, MFA, IMF and WB, the authorities would have had to resort to far less concessionary lending from bilateral donors from Saudi Arabia and Qatar. Such loans could have been accompanied by some opaque conditions, possibly including some purely political ones - a prospect that many Tunisian stakeholders willing to preserve neutral position of the country on the African Continent have been very worryied about. Furthermore, given the sheer size of the gap, the authorities could have also attempted to tap into international financial markets hoping to find the complementary financing, though with clear disadvantage given relatively high interest rates and short maturities compared to the donors' financing. Finally, some modest cuts including capital expenditures already 'cut to the bones' could have followed. The consequences for the real economy in the short-run would have comprised, inter alia, decline in output, even lower investment as well as some marked loss in consumer and business confidence translating into further depreciation of Tunisian dinar, rise in inflation and corresponding fall in household disposable income.

In parallel, the absence of the IMF (and other donors) support would have meant that some of the reforms initiated by its programme would not have been implemented and, consequently, the technical assistance and disciplining role of the IMF (and other donors), in terms of reform implementation, would have been also absent.

12.2.1.2 Social impact of the MFA

Increases in monthly disbursements of the existing social security system, PNAFN, coupled with the expanding household coverage of this policy are likely to have compensated households for the reduction in energy subsidies *on average*. However, given the weaknesses in the targeting of PNAFN, there is no guarantee that the poor and vulnerable households benefited from these reforms.

A counterfactual analysis of what the social situation might have been in the absence of MFA support suggested that, if MFA were not provided but IMF support continued, the indirect effects on the social situation in Tunisia would have been limited and come through direct channels, namely the MoU conditions relating to the social safety net (discussed above). The indirect effects would have been limited due to replacement of the MFA with alternative sources of financing.

If both MFA and IMF support were revoked, then this would have presented an exceptionally challenging situation for the Tunisian authorities, likely triggering a national crisis. The rising debt, public cuts and destabilising economy would likely have been felt in Tunisian labour markets, threatening living standards.

12.2.1.3 Progress in terms of reform implementation

Generally, one should distinguish between progress in the reform implementation within the narrower scope, as defined in the text of the specific MFA conditions, on the one hand, and the overall progress in the broader sense considering the areas tackled by those conditions on the other hand.

In the first instance, the MFA has been broadly successful. Conditions related to the new banking law had the law on Central Bank made positive contributions and reinforced the efforts of the IMF. Although the law on Cour de Comptes submitted to the Parliament as part of the requirement set by the MFA condition stayed there for over three years, it has been eventually passed a few weeks before the publication of this report. Likewise, the condition related to régime forfaitaire did play a material role in encouraging the authorities to limit the eligibility criteria to 70 industrial, commercial and service activities in 2014, one of a very few positive developments observed here over the recent years. And even though the outcomes of the trade related condition concerning conversion of the existing system of industrial compulsory standards (*normes homologuées)* into a system aligned with that of the EU and the condition concerning the progress towards establishment of a unified database and targeting system based on a single Social Identification Number were far from impressive (the MFA I was only one among many actors/instruments pushing for reforms), it is more than evident that their level of ambitiousness was significant with the corresponding bar for the assessment of the effectiveness set high.

In turn, when one considered broader perspective (beyond the narrow definition of conditionality), the progress has been considerably slower than expected in a number of areas. For instance, in the SSN sector, the survey of beneficiaries was launched with a three-year delay and despite undisputable progress that has been made, notably at the technical level and in terms of preparatory work, a unified database and targeting system based on a single Social Identification Number are still not ready. Likewise, there has been no meaningful changes in terms of the eligibility criteria for régime forfaitaire that still remains a source of abuse and in some cases major fraud. The reforms in the trade area aiming at approximating the Tunisian regulations with the EU *acquis* also bore few fruits so far.

Overall, the MFA played a significant role in promoting the reform effort in its areas of focus with having potentially very sizable impacts long-term (SSN reform). Yet, more broadly, a lot remains to be done. As put by one of the participants in the focus group with local NGOs, ‘everything is in progress in Tunisia, and it is too early to talk about any wins’.

12.2.2EU added-value

In financial terms, the MFA operation provided clear EU added value in the sense that it was providing financial assistance at a scale Member States could not. It also generated financial savings for Tunisian authorities thanks to the concessional interest rates of the MFA loan (circa EUR 110 mln accrued over 15 years had the authorities borrowed similar monies on the international markets) of which maturity was longer than what would have been available on the market.

The non-financial added value from MFA was mostly linked to the reinforcing effect it had for several reforms. In some areas, the reinforcing effect was more of the operational nature (i.e. in the national statistics with the condition envisaging the adoption of the Charter). In others it came in the form of the broader encouragement accompanying the effort of other donors (i.e. in the SSN area where the condition added to the sustained incentives to continue the progress towards establishing a unified database). There were also reforms that were *en gross* promoted solo by the MFA and even though those brought limited tangible changes in grand scheme of things (i.e. reform of the régime forfaitaire or approximation of *normes homologues* to the EU *acquis*), these conditions still incentivised the authorities and some actors to push for much needed and relevant improvements.

Symbolically, the MFA coming from the EU being Tunisia's primary partner, it enhanced the overall EU support package provided to the country, that in turn demonstrated the reinforced EU commitment and support for Tunisia on its transition journey towards fully fledged democracy.

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