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**COMMISSION STAFF WORKING DOCUMENT**

**EXECUTIVE SUMMARY OF THE EVALUATION**

**of Decisions (EU) 2016/1112 and (EU) 2016/2371**

***of the***

**European Parliament and of the Council**
**providing Macro-Financial Assistance to Jordan and Tunisia (2016-2019)**

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In 2016, the European Parliament and Council adopted macro-financial assistance (MFA-II) operations of EUR 200 million to Jordan and EUR 500 million to Tunisia respectively, to support them in addressing serious balance-of-payment (BoP) difficulties. These operations followed previous EU macro-financial assistance interventions (MFA-I) in the respective countries, as both countries continued to deal with serious economic challenges, driven mostly by regional insecurity and the Syrian refugee influx in the case of Jordan and domestic security threats and the repercussions of the crisis in Libya in the case of Tunisia. Both operations were disbursed in full, in several instalments, between October 2017 and November 2019.

ICF NEXT, in cooperation with Cambridge Econometrics, was appointed as external contractor to undertake the *ex-post* evaluation of the respective MFA-II interventions to Jordan and Tunisia, on which the accompanying Commission staff working document (SWD) is based. Given regional similarities, overlapping implementation timeframes and comparable conditionality, the joint evaluation also analysed key similarities, differences and patterns across the two interventions, including their regional impact in the EU's Southern Neighbourhood.

The independent evaluation found that both MFA-II operations were successful in contributing to the macroeconomic stabilisation in the respective countries, in a persistently challenging economic context with high external financing needs. Both operations were relevant in terms of their objectives, financial envelope and reform conditions. They supported the countries in addressing BoP difficulties and implementing key structural reforms to stabilise the economy and enhance the sustainability of their external position.

MFA policy conditionality covered relevant reform areas in both countries. These areas were aligned with the countries' own reform agendas and both countries made tangible reform progress. Conditions in the respective MFA-II operations showed continuity with previous MFA operations and built on lessons learned. This was the case in Tunisia, with the parliamentary adoption of key laws (on external auditing and the social safety net) and, on the technical front, with the creation of a scoring model to target vulnerable households. In Jordan also, continuity with previous policy conditionality was observed, in particular for public financial management and social policy. All policy conditions were fulfilled in Jordan, while for Tunisia a waiver in relation to one condition was granted and duly justified. In both cases, there were moderate-to-substantial delays in implementation of some reforms, with the external evaluation concluding that higher capacity from the relevant domestic institutions would have facilitated better progress, in a context of instability in both countries.

The MFA-II operations in Jordan and Tunisia were effective in helping improve the respective BoP situations, as well as in supporting fiscal consolidation in both countries through highly concessional financial terms and the implementation of key policy conditions. The MFAs covered a substantial part of the respective estimated residual financing gaps, while increasing confidence in the respective economies and reducing the pressure on the BoP.

Both MFA-II operations were designed and implemented efficiently and were consistent with the broad policy framework guiding EU relations with the countries, as well as with the previous MFA operations, other donors and EU programmes. MFA not only contributed to effective 'burden sharing' with the IMF and other donors in financial terms, but also reinforced reforms promoted by the government and the international partners. At the same time, the study shows that the roles with the IMF could have been better divided, with more

efficient use of cross-conditions and with the EU's efforts better targeted towards areas where it had specific expertise and experience.

The EU's added value primarily concerned the financial benefits of the support to the Jordanian and Tunisian economies, with the long-term and highly concessional nature of the MFA loans allowing for fiscal savings and a more gradual adjustment of the primary public deficit. The financial contributions covered part of the financing gaps and provided added value in the sense that individual EU Member States alone would likely not have provided aid of equivalent size. Also, the respective MFA-II operations supported the implementation of a number of key reforms and were instrumental in achieving some of them, contributing to the sustained mobilisation of local authorities around these issues. Symbolically, the MFA-II sent a strong signal of EU support to Jordan and Tunisia and had some confidence-boosting and signalling effects which, coupled with IMF support, prevented a further drop in confidence in the respective economies.

The counterfactual analysis on the MFA's social impact suggested that, in the absence of the respective MFA-II operations, the social situation would have been negatively affected. This negative effect would first have been transmitted through direct channels in both countries (slower or more superficial progress with key reforms such as social safety net reforms and labour market policy) but also via indirect channels, notably in Tunisia (higher costs of living and lost income stemming from GDP impacts). The social impacts would have been even more severe in the hypothetical scenario of the absence of both the MFA and IMF funding.

The evaluation found that the MFA-II operations contributed positively to the sustainability of Jordan and Tunisia's public debt. They enabled fiscal savings and helped the countries' adjustment path by creating fiscal space for other reforms and for sustaining social spending. Yet, given the relatively limited size of the operations in both countries, debt levels would have remained largely similar to what was estimated in the case of no MFA funding. However, the combined counterfactual effect of no MFA and no IMF financing would have been very negative in the corresponding hypothetical scenario. At regional level, the potential impact of the operations was deemed limited, given the relatively small size of the supported economies and low intraregional integration, with possible positive impacts mostly associated with confidence-boosting effects and other less measurable channels.

In conclusion, the MFA-II operations in Jordan and Tunisia were relevant through their support to the countries' economic recovery and macroeconomic stability following severe external shocks, providing fiscal savings and financial benefits, boosting confidence and incentivising important reforms. The size, form and timing of the operations were relevant and appropriate to the countries' financing needs, providing EU added value. The MFA conditionality packages were relevant, focused on significant areas and supported positive change in some key reform areas, despite mixed progress in specific reforms. Both operations were consistent with the overall EU policy framework, aligned with the authorities' reform agenda and other donors' programmes. A detailed and comprehensive assessment of the MFA interventions is set out in the accompanying Commission staff working document, which informs this executive summary.