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REPORT FROM THE COMMISSION TO THE EUROPEAN PARLIAMENT AND THE COUNCIL

Evaluation of Decision N° 534/2014/EU of the European Parliament and of the Council of 15 May 2014 providing macro-financial assistance to Tunisia

{SWD(2021) 8 final}

In May 2014, the European Parliament and Council adopted[1] a MFA operation of EUR 300 million to support Tunisia in addressing its balance-of-payment (BoP) crisis, which had worsened after the Jasmine Revolution in 2011 and the subsequent political and economic transition. The operation was disbursed in full, in three tranches, between May 2015 and July 2017.

ICF, in cooperation with Cambridge Econometrics, was appointed as external contractor to undertake the ex-post evaluation of MFA-I in Tunisia, on which the accompanying Commission Staff Working Document (SWD) is based. The aim of the external evaluation was to assess the relevance, efficiency, effectiveness, coherence, and EU value added of the MFA operation. It also explored the social impact of the programme and its effect on Tunisia's public debt sustainability. The evaluation in question draws on evidence gathered through a variety of quantitative and qualitative research techniques, including key stakeholders consultation. A number of methodological limitations have been identified; however, they do not impact the overall reliability of the evaluation analysis. Risks and limitations identified were mitigated by using a wide range of sources, different evaluation techniques, alternative scenarios and multiple rounds of feedback.

The external evaluation and the Commission's SWD intend to (1) inform the future use of the MFA instrument; and (2) ensure transparency and accountability, in accordance with the Financial Regulation[2] and the MFA decision for Tunisia.

The evaluation found that MFA-I was **relevant** in terms of its objectives, financial envelope and structural conditions. MFA policy conditionality covered the most relevant reform challenges in Tunisia, namely: taxation; public-finance management; social-safety net (SSN); financial sector; public statistical system; trade. While the country successfully delivered on all the agreed reform conditions, difficulties were encountered in the field of SSN and trade reforms. The external evaluation concluded that more capacity from the relevant Tunisian institutions would have facilitated better progress on these actions, given the challenges faced by the still young Tunisian institutions in terms of administrative capability and ownership, in a context of political instability. This finding also highlighted the need for designing reforms in a way that secures achievable targets taking into account a fragile institutional context and a fragmented political landscape, which could delay the implementation of the reform programme, as seen in the period 2015-2017. The fact that many conditions under MFA-I (in the tax, public-finance management, social-safety net and financial sectors) were subsequently taken further as part of MFA-II underlines the shared intention, by the EU and Tunisian Government, to concentrate efforts on pushing for steady progress in these critical reform areas.

MFA-I was **effective** in helping to improve Tunisia's BoP, as well as supporting fiscal consolidation through highly concessional financial terms and policy conditions. The MFA covered around 11.3% of the residual financing gap for the period 2015-2016 and increased confidence in the Tunisian economy (by decreasing the market-based financing cost, and by helping to stabilise the national currency).

MFA-I was designed and implemented **efficiently** and it was **coherent** with the broad policy framework guiding the EU-Tunisia relations. There is also a high level of external coherence

[1] 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. Available at: https://eur-lex.europa.eu/legal-content/EN/TXT/?qid=1476964844762&uri=CELEX:32014D0534

[2] https://eur-lex.europa.eu/legal-content/EN/TXT/?uri=CELEX:32018R1046

with interventions coming from other international donors. The MFA not only contributed to 'burden sharing' with the International Monetary Fund (IMF) and other donors in financial terms, but also reinforced reforms promoted by the IMF and World Bank (WB) through the use of cross conditionality and complementary conditions. Notwithstanding the original intention of reducing cross-conditionality, the evaluation confirmed that the choice of concentrating on key reform areas, even if already tackled elsewhere, was a successful one. Similar considerations are encouraged for future interventions.

The **EU's added value** primarily concerned the financial benefits granted to the Tunisian economy, with the highly concessional terms of the MFA loans allowing for fiscal savings and a gradual adjustment of the primary public deficit. 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), contributing to the sustained mobilisation of local authorities around these issues. Furthermore, MFA-I was the only instrument advancing the simplified income tax declaration system (*regime forfaitaire*).

A counterfactual analysis on the MFA's **social impact** suggested that, if MFA was not provided but IMF support continued, the indirect effects on the social situation in Tunisia would have been limited. MFA had more impact through *direct channels*, namely the conditions in the Memorandum of Understanding related to social safety net reforms.

Finally, the evaluation found that MFA-I had a positive effect on the **sustainability of Tunisia's public debt.** It enabled fiscal savings, resulting from the very favourable financial conditions of the operation, and it helped Tunisia's adjustment path by creating fiscal space for other reforms and for sustaining social spending. However, given its relatively limited size, it is unlikely that the absence of MFA-I would have significantly affected the sustainability of Tunisian public debt.

In conclusion, MFA-I was relevant to support Tunisia's economic recovery after the Jasmine Revolution in 2011 and the ensuing political transition, providing fiscal savings and financial benefits, as well as boosting private sector confidence. The MFA conditionality package was fully aligned with the related IMF programme and created a politically reinforcing effect that contributed to the mobilisation of local authorities around crucial reforms, even in areas not covered by other international donor programmes. The Commission Staff Working Document, which informs this report, provides a detailed and comprehensive assessment of the MFA intervention.