



**Macro-financial assistance for the Republic of Tunisia
Loan from the European Union of up to EUR 600 million**

MEMORANDUM OF UNDERSTANDING

between

**THE REPUBLIC OF TUNISIA
as Borrower**

and

**THE EUROPEAN UNION
as Lender**

2020

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1. On 25 May 2020, the European Parliament and the Council of the European Union adopted a decision (Decision (EU) 2020/701¹) on providing macro-financial assistance to enlargement and neighbourhood countries in the context of the COVID-19 pandemic. The Decision makes available to the Republic of Tunisia (hereafter referred to as “the Country”) macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 600 million in the form of a loan. The assistance shall be made available for one year starting from the first day after the entry into force of this Memorandum of Understanding (hereafter referred to as “the MoU”).
2. The objective of this assistance 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 address the current external and financial vulnerabilities. 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.
3. The assistance shall be disbursed in two instalments of up to EUR 300 million each.
4. The first instalment of the assistance shall be released upon the signature and entry into force of this MoU and the accompanying Loan Facility Agreement and shall be conditional upon a satisfactory track record of implementation of the commitments agreed between the Country and the International Monetary Fund (hereafter referred to as “the IMF”).

The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment.

The disbursement of the second instalment of the assistance will be conditional on both a positive assessment by the European Commission (hereafter referred to as “the Commission”) on behalf of the European Union, of progress made with respect to a number of macroeconomic and structural adjustment measures and, if applicable, a satisfactory track record in the implementation of the commitments agreed with the IMF . The policy conditions attached to this assistance are based on the economic stabilisation and reform programme endorsed by the authorities of the Country and are consistent with agreements reached by the Country with the IMF. Accordingly, before the release of each instalment of this assistance, the Commission, in co-operation with the national authorities and IMF staff, will verify that the conditions attached to this assistance have been adequately respected or new understandings reached.

5. Prior to the release of the second instalment by the Commission, the Country’s authorities shall provide the Commission with a Compliance Statement on the fulfilment of the conditionality attached to it. Upon receipt of the compliance statement by the authorities of the Country, the Commission will evaluate, based on consultations with the authorities of the Country and IMF staff, progress made with respect to the fulfilment of the conditionality. In this evaluation, particular attention will be paid to reforms in public finance management, the rule of law and the fight against corruption, the business climate, as well as sector reforms, including to state-owned enterprises. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of a negative evaluation, the Commission may withhold the

¹ OJ L 165, 27.5.2020, p. 31.

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disbursement of the instalments until the Country proves the compliance with the conditionality. If necessary, Annex I may be amended upon mutual agreement, following the completion of the respective approval processes of the European Union and the Country.

6. The Commission will also continuously verify the financing needs of the Country and may reduce, suspend or cancel the assistance in case the financing needs of the Country have decreased fundamentally during the period of disbursement compared to the initial projections.
7. The Commission shall transfer the instalments to a euro account of the Ministry of Finance of the Country (hereafter referred to as “the Recipient”) at the Central Bank of Tunisia (hereafter referred to as “the Agent”). Given the substantial budgetary financing needs faced by the Country, the proceeds of the loan will be used to finance the Country’s budget.
8. During the implementation of the assistance, the Country’s authorities shall supply the Commission with all information that is relevant for the monitoring of its economic and financial situation and for the assessment of progress in structural reforms. In particular, the authorities will supply to the Commission on a timely basis the relevant information as set out in Annex II.
9. With a view to preventing irregularities and fraud related to the use of the assistance and ensuring the protection of the EU’s financial interests, the relevant provisions of the Loan Facility Agreement will apply, notably those regarding regular checks by the Country on the use of European Union assistance, and checks and audits and investigations performed by the Commission, including the European Anti-Fraud Office and the European Court of Auditors and the European Public Prosecutor’s Office.. Also, the provisions of the Loan Facility Agreement on early repayment will apply in case it has been established that the Country has engaged, in relation to the management of this assistance, in any act of fraud, corruption or any other illegal activity.
10. The Commission, represented by its own agents or its duly mandated experts, shall have the right to carry out operational assessments of the administrative procedures and financial circuits of the Country and of the Agent that relate to the management of European Union macro-financial assistance throughout the duration of this MoU and for five years after the disbursement of the last instalment (*ex-post* period).
11. An independent *ex-post* evaluation of the assistance may be carried out by the Commission or its duly authorised representatives. The authorities of the Country are committed to supplying all necessary information to the Commission, represented by its own agents or its duly mandated experts, for the duration of this process. The evaluation report will be made available to the authorities of the Country for comments.
12. The authorities will ensure, as appropriate, close co-operation with the European Commission.
13. This assistance is implemented on the understanding that the authorities of the Country will continue to respect effective democratic mechanisms, including a multi-party parliamentary system and the rule of law, and to guarantee the respect for human rights.

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The Country also undertakes to make satisfactory progress towards implementation of the Association Agreement.

14. Annexes I and II are an integral part of this MoU.
15. All notices in relation with the present MoU shall validly be given if in writing and sent to:

For the European Union

European Commission
Directorate General for
Economic and Financial Affairs
CHAR 11/248
B-1049 Brussels, Belgium

For the Republic of Tunisia

Ministry of Finance
Place du Gouvernement La Kasbah
1006 Tunis
Tunisia
For the attention of: Minister of Finance

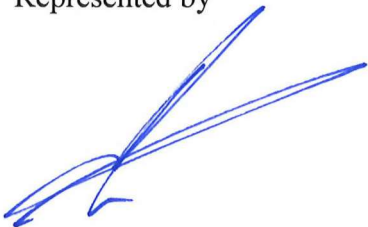
With copy to:
Central Bank of Tunisia
25 rue Hedi Nouira
1080 Tunis
Tunisia
For the attention of: Governor

16. The present MoU shall enter into force following the signature by the European Union and the Country and upon its ratification by the Country's Parliament.
17. The MoU may be amended upon mutual agreement of the parties in form of a written Addendum. The Addendum will be an integral part of this MoU and will enter into force according to the same procedures as the MoU.

Done in Tunis on ____/____/2020 and in Brussels on 24/11/2020 in four copies.

THE REPUBLIC OF TUNISIA
as Borrower

Represented by



H.E. Ali Kooli
Minister of Economy, Finance and Investment
Support

EUROPEAN UNION
as Lender

Represented by
EUROPEAN COMMISSION
Represented by



H.E. Paolo Gentiloni
Member of the European
Commission

CENTRAL BANK OF TUNISIA

Represented by



H.E. Marouane El Abassi
Governor

ANNEX I

STRUCTURAL REFORM CRITERIA

At the time of the Commission staff review that will precede the decision on the disbursement of the second instalment, the authorities of the Country are committed to have accomplished the following actions:

SECOND INSTALMENT

PUBLIC FINANCIAL MANAGEMENT AND CIVIL SERVICE REFORM

Action 1

1.1 With a view to improving the efficiency, effectiveness and quality of the public administration, while reducing its burden on the budget, the Government will continue to implement the strategy for the reform of the civil service. This will be done through the a) the non-replacement of final departures in 2020; b) better targeting of recruitments that will be limited to essential needs and priority specialties (education, security, etc.); c) the creation of a mobility scheme to encourage the mobility of civil servants. The government also commits to capping wage increases below the rate of inflation for 2020 and in the draft budget for 2021 presented to the Assembly.

1.2 Publication of a government decree establishing teleworking for officials of the State, local communities, public establishments and enterprises.

1.3 Finalization of a study on the evaluation of the administrative timetable (decree 1710 of September 14, 2012 relating to the distribution of the working hours and days of state employees, local authorities and public administrative establishments) and proposals for possible solutions to improve this distribution.

1.4 The spot check (*vérification ponctuelle*) as a new form of tax audit is introduced in the draft finance law for 2021 presented to the Assembly.

Action 2

2.1 In order to make the budget more supportive of growth and fairness and in line with the strategy to gradually reduce the energy-price subsidies that started in 2014, the Government will take specific steps to phase out energy subsidies in a socially conscious way. The government will issue a regulation to put in place mechanisms to sustainably reduce subsidies for electricity and natural gas while preserving social electricity tariffs and maintaining subsidies on LPG cylinders.

2.2 The government will also issue regulation to improve and control LPG distribution channels and reduce losses due to domestic LPG diversion in the transport, agriculture and service sectors.

2.3 The government will automatically revising the monthly fuel price with a smoothing (maximum change) of +/-2% from January 1, 2021 (1.5% in 2020).

STATE-OWNED ENTERPRISES

Action 3

3.1 In order to improve fiscal transparency and the governance of State-Owned Enterprises (SOEs), the government will put in place and implement a merit-based appointment system for boards of directors and the introduction of a minimum number of independent directors in public enterprises. This will include: a) The publication of the regulation establishing the commission responsible for choosing and evaluating the performance of directors representing the State and independent directors and their dismissal, as well as setting the commission's mission and modes of operation; b) The development of a common manual of procedures which sets the measures and criteria for the exercise of the missions of the said commission.

3.2 The government will develop a SOEs director's guide, setting out the obligations incumbent on the director as well as rights and responsibilities in accordance with regulatory and legislative texts.

3.3 Publication of a government decree on the implementation of a system for appointing SOEs business leaders based on the principles of transparency and equal opportunities, taking into account the gender approach. This will foresee the development of a database containing a list of competencies and skills and the implementation of a remuneration system that takes into account the performance evaluation of heads of public enterprises.

3.4 Publication of the report on SOEs, annexed to the draft finance law 2021, covering the 2017-2019 period, incorporating an analysis of the debt of guaranteed or non-guaranteed SOEs and relating to an enlarged number of SOEs.

3.5. Publication of the audited financial statements for the 2017 and 2018 fiscal years of SOEs whose combined share in terms of turnover, total balance sheet and headcount in the portfolio of public enterprises represents more than 90% of the total.

SOCIAL PROTECTION

Action 4

To improve inclusion, social protection and achieve a rapid targeted expansion of cash transfers, the government will continue to implement the provisions of the AMEN Social law and will:

4.1 Publish a government decree setting out the powers, composition and operating methods of the Higher council for social development.

4.2 Adoption of a unified multisectoral action plan, setting out roles and responsibilities, at national and sectoral level, for the deployment of IDs and digital authentication.

4.3 To improve the adequacy and efficiency of cash transfers and health coverage for poor and vulnerable households, the new digital health cards for beneficiaries of assistance programs will start to be issued.

INVESTMENT CLIMATE

Action 5

5.1 With the aim of improving the business climate in Tunisia, as a key element of the Government's strategy to promote sustained and sustainable economic growth, the Government will adopt and publish the regulation needed for: a) The digitization of the legal constitution of SARL / SUARL companies within the Agence de Promotion de l'Industrie et de l'Innovation (APII) through the generalization of the investment platform currently hosted at the Tunisian Investment Authority; b) Digitization of the investment declaration within the APIA, ONTT and ONA agencies; and c) Digitization of the granting of building permits to the Municipality of Tunis.

5.2 The Government will elaborate an action plan outlining the stages and timetable for the harmonization of the classification of economic activities in accordance with the Tunisian classification of activities (NAT 2009) and decree 390/2017.

ANNEX II

MONITORING SYSTEM

1. Monitoring of macro-economic and financial developments and policies

During the implementation of the European Union macro-financial assistance, the following indicators and reports shall be published or provided to the Commission by the relevant authorities of the Country, on a quarterly basis.

a) Information submitted by the Ministry of Finance:

- GDP or national income (quarterly)
- Main components of GDP (quarterly)
- Employment and unemployment rates (quarterly)
- Level and composition of general and central government revenue and expenditure as well as government payment arrears (quarterly)
- Fiscal balance of the central government (quarterly)
- Fiscal balance of the general government (annual)
- External public debt stock and (interest and principal) payments (quarterly)
- Domestic public debt stock and (interest and principal) payments (quarterly)
- Scheduled quarterly payments (interest and principal) of domestic and external public debt for the years 2020-2022 (quarterly)
- Consumer and producer prices (monthly)
- Interest rates on benchmark government bonds at liquid maturities (monthly)

b) Information submitted by the Central Bank of Tunisia

- Interbank interest rates at benchmark maturities (monthly)
- Banks' overall lending rate (monthly)
- Balance-of-payments and main components (quarterly)
- International reserve position (monthly)
- Nominal bilateral exchange rates against the euro and the USD (monthly)

2. Monitoring of structural policies

During the implementation of the European Union macro-financial assistance, data and/or information relating to the implementation of policy measures specified in Annex I shall be provided to the Commission by the relevant authorities of the Country, on request from the Commission, including reports on reforms in the areas specified in Annex I.

This will include relevant information on fiscal, monetary, and financial policy (decrees or circulars newly adopted or revised concerning changes in tax policy, tax administration, foreign exchange, market regulations, banking regulations, etc.) as well as other relevant provisions, such as the budget proposal and medium term expenditure framework for 2021.