



**Macro-financial assistance for the Republic of Tunisia**  
**Loan from the European Union of up to EUR 500 million**

**MEMORANDUM OF UNDERSTANDING**

**between**

**THE EUROPEAN UNION**  
**as Lender**

**and**

**THE REPUBLIC OF TUNISIA**  
**as Borrower**

# **MEMORANDUM OF UNDERSTANDING BETWEEN THE EUROPEAN UNION AND THE REPUBLIC OF TUNISIA**

1. On of 6 July 2016, the European Parliament and the Council of the European Union adopted a decision to make available to the Republic of Tunisia (hereafter referred to as “the Country”) a macro-financial assistance (hereafter referred to as “assistance”) of up to EUR 500 million in the form of a loan (Decision n° (EU) 2016/1112<sup>1</sup>). The assistance shall be made available for two and a half years starting from the first day after the entry into force of the Memorandum of Understanding (hereinafter MoU).

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 aggravated by regional instability and the impact of last year's terrorist attacks. 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.

2. The assistance shall be disbursed in three instalments, of EUR 200 million, EUR 150 million and EUR 150 million, respectively.
3. 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, conditional upon a satisfactory track record of implementation of the current Extended Fund Facility (EFF) agreed between the Country and the International Monetary Fund (hereafter referred to as “the IMF”).
4. The release of the second instalment shall not, in principle, take place earlier than three months after the release of the first instalment. The release of the third instalment shall not, in principle, take place earlier than three months after the release of the second instalment.

The disbursement of the second and third instalments of the assistance will be conditional on both a satisfactory track record in the implementation of the programme agreed with the IMF and on 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. The policy conditions attached to this assistance are based on the economic stabilisation and reform programme endorsed by the Country’s authorities 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.

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<sup>1</sup> O.J. L 186, 9.7.2016, p.1

Prior to the release of the second and third instalments by the Commission, the Country's authorities shall provide the Commission with Compliance Statements on the fulfilment of the conditionality attached to the instalments in question. Upon receipt of compliance statements by the authorities of the Country, the Commission will evaluate, in co-operation with the authorities of the Country and IMF staff, progress made with respect to the satisfactory fulfilment of the conditionality attached to the instalment in question. In this evaluation, particular attention will be paid to reforms to improve public finance management and the civil service, increase tax collections while enhancing tax equity, better target the social safety net, support active labour market policies, strengthen banking regulation, and promote investment and the recovery of the tourism sector. 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 disbursement of the second or third 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 EU and Tunisia.

5. 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.
6. The Commission shall transfer the instalments to a euro account of the Ministry of Finance of the Country (hereafter referred to as “the Recipient”) with 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.
7. 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.
8. 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 Tunisia on the use of EU assistance, and checks and audits performed by the Commission and the Court of Auditors. Also, the provisions of the Loan Facility Agreement on early repayment will apply in case it has been established that Tunisia has engaged, in relation to the management of this assistance, in any act of fraud, corruption or any other illegal activity.
9. 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 EU macro-financial assistance throughout the duration of this MoU and for five years after the disbursement of the last instalment (*ex-post* period).

10. 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.
11. The authorities will ensure, as appropriate, close co-operation with the European Commission.
12. 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.
13. Annexes I and II are an integral part of this MoU.
14. 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  
CHAR11/248, B-1049, Brussels

For the Republic of Tunisia

Ministry of Finance  
HE the Minister of Finance  
Gouvernement de la République  
Tunisienne  
Place du Gouvernement La Kasbah – 1006  
Tunis, Tunisia

Central Bank of Tunisia  
HE the Governor of the Central Bank of  
Tunisia  
25 rue Hedi Nouira - 1080  
Tunis, Tunisia

15. The present MoU shall enter into force following the signature by the Republic of Tunisia and the European Union and upon its ratification by the Tunisian Parliament.
16. 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 Brussels on 27 April 2017 in four originals in the English language.

FOR THE EUROPEAN UNION



H.E. Mr Pierre MOSCOVICI  
Member of the European Commission

FOR THE REPUBLIC OF TUNISIA



H.E. Ms Lamia BOUJNAH ZRIBI  
Minister of Finance

FOR THE CENTRAL BANK  
OF TUNISIA



H.E. Dr. Chedly AYARI  
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 and third instalments, the authorities of the Republic of Tunisia are committed to have accomplished the following actions:

#### SECOND INSTALMENT

##### PUBLIC FINANCIAL MANAGEMENT AND CIVIL SERVICE REFORM

###### Action 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 adopt a comprehensive strategy for the reform of the civil service.

###### Action 2

With a view to strengthening the external audit of public accounts, the Parliament will adopt 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.

##### TAX REFORM

###### Action 3

With a view to enhancing tax collection while moving towards a simpler and more equitable tax system, and in line with the Tax Reform Strategy adopted by the Government in May 2016, the Budget Law (*Loi de Finances*) for 2017 will include steps towards a reform of the VAT. In particular, the number of goods and services subject to the intermediate VAT tax rate of 12% and the number of exemptions to the VAT will be substantially reduced.

##### SOCIAL PROTECTION

###### Action 4

The *Centre de Recherches et d'Etudes Sociales (CRES)*, under the purview of the Ministry of Social Affairs, will submit to the Government a Strategic Orientation Note on the reform of the main social transfer programmes (*Programme national d'aide aux familles nécessiteuses – PNAFN*- and *Cartes de soins gratuites et à tarifs réduites*). The note will draw on the results of the evaluation of these programmes undertaken by CRES based on the survey of some 6,000 households and will propose specific measures, including a scoring system, to improve the targeting of the programme beneficiaries.

###### Action 5

The Government will submit to Parliament a new law that will replace the current legislative framework governing the social transfer programmes (*PNAFN* and *Cartes de soins*), currently composed of several ad-hoc regulations. In line with the provisions of the 2014 Constitution,

this new law will emphasise a multi-dimensional approach to the targeting of social transfer programmes.

## **LABOUR MARKET REFORMS**

### Action 6

With a view to enhancing active labour market policies and reducing unemployment, especially among the youth, the Government will make substantial progress in the implementation of the FORSATI programme managed by the Ministry of Employment. In particular: i) a full Personal Employment Project will be provided to at least 50% of the 85.000 employment seekers registered under the first edition of the programme, which was launched in 2016; and ii) a new edition of the programme will be launched in 2017 with sufficient financial backing provided by the 2017 Budget Law.

### Action 7

With a view to reducing long-term unemployment, the Government will launch a new active labour market policy programme ("*Contrat Dignité*"), with sufficient backing under the 2017 Budget Law, aimed at reinserting into the labour market job seekers who have been unemployed for over two years.

## **INVESTMENT CLIMATE**

### Action 8

With the aim of improving the business climate in Tunisia as a key element of the Government's strategy to promote economic growth, and following the adoption in September 2016 by Parliament of a new Investment Law, the Government will adopt the main by-laws for the implementation of the Code. These will include, in particular the following three by-laws: i) one simplifying and strengthening the institutional and governance framework for investment; ii) one clarifying the financial incentives provided to investments and setting up the Tunisian Investment Fund (*Fonds Tunisien de l'Investissement*); and iii) one defining the nomenclature and authorisations mechanisms. In addition, the Government will adopt a new law aimed at streamlining and clarifying the criteria for granting the fiscal incentives applicable to investments.

## **THIRD INSTALMENT**

## **PUBLIC FINANCIAL MANAGEMENT**

### Action 9

The Government will ensure that all bidders have unrestricted access to the TUNEPS system of e-procurement.

## **TAX REFORM**

### Action 10

Building on the reforms of the VAT introduced in the context of the 2017 Budget Law, the draft Budget Law for 2018 submitted by the Government to Parliament will foresee: i) a reduction in the number of VAT rates from three to two, through the elimination of the middle rate; and ii) an additional substantial reduction of the number of exemptions to the VAT.

## **SOCIAL PROTECTION**

### Action 11

The Ministry of Social Affairs will complete the survey of the approximately 900.000 households currently benefitting from the main social transfer programmes (*PNAFN* and *Cartes de soins*) and publish the results.

### Action 12

Consistent with the National Development Plan 2016-2020 adopted by Government in May 2016, the Government will adopt an Action Plan for the implementation of reforms aimed at improving the effectiveness and sustainability of the country's social protection system (including, inter alia, the main cash transfer programmes and the pension and health care systems). The plan will draw on the recommendations contained in the assessment and results-based matrix that the CRES, under the purview of the Ministry of Social Affairs, has been requested to provide with technical support from the International Labour Organisation, UNICEF and the World Bank.

## **INVESTMENT CLIMATE**

### Action 13

As part of the reform of the investment framework started with the approval of the Investment Law in 2016, and with a view to boosting foreign direct investment, facilitating market access and creating a level playing field for all investors, the Government will adopt a decree regulating access by investors, including foreign investors, to the different economic sectors. This decree will benefit from the work carried out and recommendations issued by the *Unité de Gestion par Objectifs* that will be created (also by decree) to review sector legislation regarding market access.

The decree regulating market access will reduce the number of economic sectors for which investment is subjected to authorisations or specifications (*cahiers de charge*) and will be consistent with the principle of equal treatment of domestic and foreign investors stated in the new Investment Law (Article 2). Specifically, the decree will imply the suppression of the list of 49 service activities currently requiring authorisation by the *Commission Supérieure de l'Investissement* for any foreign investment entailing the acquisition of a majority stake.

## **FINANCIAL SECTOR**

### Action 14

Following the adoption by Parliament of the new Banking Law, the Government will adopt the necessary decrees needed to implement the creation of a deposit guarantee scheme for banks in line with international standards, as required in the new law.

## **SUPPORT TO THE TOURISM SECTOR**

### Action 15

With a view to supporting the recovery of the tourism sector, while promoting further economic integration between Tunisia and the EU, the Government will conclude the negotiations, and initial, a Euro-Mediterranean Aviation Agreement.



## ANNEX II

### MONITORING SYSTEM

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

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

##### *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, including external arrears (quarterly)
- External public debt service payments (quarterly)
- Domestic public debt and debt service (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:**

- Progress reports on reforms in the areas specified in Annex I (quarterly)