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PROPOSAL

From:	Secretary-General of the European Commission, signed by Mr Jordi AYET PUIGARNAU, Director
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To:	Mr Jeppe TRANHOLM-MIKKELSEN, Secretary-General of the Council of the European Union
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Subject:	Proposal for a DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL providing further macro-financial assistance to Tunisia

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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing further macro-financial assistance to Tunisia

{SWD(2016) 30 final}

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EXPLANATORY MEMORANDUM

1. CONTEXT OF THE PROPOSAL

- Grounds for and objectives of the proposal

In parallel to a protracted and fragile political transition process since the 2011 revolution, the Tunisian economy has suffered from continuous domestic unrest, regional instability (including the impact of the Libyan conflicts), and a weak international environment (particularly in the euro area). These unfavourable developments substantially weakened its growth performance, as well as its fiscal and balance of payments positions. In 2015, largely as a result of the negative economic impact of terrorist attacks (particularly on tourism, the transport sector and investment) and of production disruptions due to social unrest, growth projections have been revised markedly down, while the situation is negatively affecting an already vulnerable balance of payments and fiscal position, creating important financing needs.

At the same time, the country has continued taking significant steps towards the consolidation of democratic mechanisms, including the approval of a new Constitution in January 2014, although the political transition has not been without difficulties and episodes of instability.

Tunisia reached in mid-April 2013 an agreement with the International Monetary Fund (IMF) on a 24-month Stand-By Arrangement (SBA) in the amount of USD 1.75 billion, which was approved by the IMF Board on June 2013, and which was subsequently extended until December 2015. It also requested in August 2013 complementary Macro-Financial Assistance (MFA) from the EU. In response, the European Commission proposed a MFA of EUR 250 million in December 2013 in the form of loans (MFA-I), which the co-legislators raised to EUR 300 million and approved in May 2014. The Memorandum of Understanding (MoU) defining the policy conditions related to this loan entered into force in March 2015.

Following the completion of the 6th review of the IMF programme last September, Tunisia requested a successor arrangement with the IMF, probably of a 4-year duration. The new IMF programme is still under negotiation but expected to be sent for IMF Board approval in the spring of 2016. The MFA-I operation is on track, despite some delays in its implementation. The first tranche was disbursed on 7 May 2015 and, with Tunisia having met the conditions agreed with the EU in the MoU, the second tranche was disbursed on 1 December 2015. The third and last tranche is expected to be disbursed in the second quarter of 2016, provided that the MoU conditions are met.

In this context, the Tunisian Prime Minister, in a letter sent to President Juncker in August 2015, and reiterated in December by a letter from the Minister of Development Cooperation and Investment, requested a second MFA operation from the EU in the amount of EUR 500 million, which would accompany the successor IMF programme. In view of the strong impact the security situation is having on Tunisia's economy and external financing needs during a period of consolidation of its political transition, and after an updated assessment of the country's external financing needs conducted in liaison with the IMF, the European Commission is submitting to the European Parliament and the Council a proposal to grant a second MFA (MFA-II) to the Republic of Tunisia amounting to a maximum of EUR 500 million, in the form of medium-term loans. The proposed amount is also consistent with the expected size of the IMF programme, with the significant risks the Tunisian economy is currently facing, and with the strong commitment of the EU to support Tunisia's political and economic transition.

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The proposed new MFA would help Tunisia cover part of its residual external financing needs, estimated at about USD 2.9 billion for the period 2016-17, in the context of the new IMF programme. It would reduce the economy's short-term balance of payments and fiscal vulnerabilities, while coordinating with the adjustment and reform programmes to be agreed with the IMF and the World Bank, as well as with the reforms agreed under the EU's budgetary support operations, in particular the State Building Contracts *Programme d'appui à la relance* (PAR). The proposed MFA-II is consistent with the orientations of the European Neighbourhood Policy (ENP) and with efforts of the international community, including the G-7 Deauville Partnership initiative, to assist Tunisia in these challenging times.

In this context, and as elaborated in the Commission Staff Working Document accompanying this proposal, the Commission considers, based also on the assessment of the political situation made by the European External Action Service, that the political and economic pre-conditions for a MFA operation of the proposed amount and nature are satisfied.

- General context

Following two years of stable, but low, *GDP growth*, in the context of the IMF programme (2.3% in both 2013 and 2014), growth for 2015 has been revised down to 0.5% compared to a forecast of 3% at the beginning of the year. Tunisia's economy has suffered a strong setback largely as a consequence of the terrorist attacks of 2015, which have affected key economic sectors. The negative effect of the attacks on the tourism sector (which contributes about 7% of GDP and accounts for around 15% of the workforce) and the transport sector (contributing also about 7% of GDP, 20% of which depends on tourism travel), as well as on foreign investors' sentiment, coupled with disruptions in phosphate production, transport and other sectors (due to work stoppages and strikes), have contributed to this downward revision. Tunisian authorities, and the IMF, expect growth to pick up in 2016, in the absence of additional shocks, supported by a slow recovery of the tourism sector and a normalisation of domestic production. Nevertheless, this baseline scenario has strong risks to the downside.

These low growth rates will, in any case, not suffice to make a significant dent on *unemployment*, which remains high at 15%, and is particularly high among the young and graduates (over 30%) and among women (21.6%). Furthermore, employment in the informal economy still accounts for around 50% of workers aged between 15 and 24.

Inflation averaged 5.5% in 2014 and is on a downward trend, in view of declining international commodity prices, stable domestic food production, the weakening of domestic demand and a prudent monetary policy. Headline inflation is expected to moderate to an average of 4.9% in 2015 and stay at around 4% over the next 5 years.

After tightening *monetary policy* between 2012 and mid-2014 in response to inflationary pressures and the deterioration in external and fiscal balances, the central bank cut its benchmark rate by 50 basis points (to 4.25%) last October, to help reignite the faltering GDP growth amid slowing CPI inflation.

Regarding the *public finances*, Tunisia achieved a certain degree of fiscal consolidation in 2014, as the structural fiscal balance (which notably excludes banking recapitalisation costs and other one-off items) declined from 5.1% of GDP in 2013 to 4.2% of GDP in 2014. However, in 2015, largely driven by expenditure measures taken in the aftermath of the terrorist attacks, and despite expenditure savings generated by the lower than expected oil prices, the structural deficit is expected to increase to 4.7% of GDP. The 2016 budget law foresees a reduction in the structural deficit back to 4.2% of GDP, to be achieved largely through an increase in revenues (in part due to the introduction of a VAT), and lower expenditure on subsidies (due mostly to the assumptions of a lower international oil price and

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a stable exchange rate). Nevetherless, the foreseen hiring of around 15,000 additional public employees (mostly for the defense and security sectors) will increase the wage bill.

Meanwhile, the *debt of the general government* has continued to increase, reaching 50% of GDP in 2014 and is forecast to peak at 61% of GDP by the end of 2018 before starting to reverse the trend. Also, a substantial increase in public debt amortisations is scheduled to take place in the coming two years (from about USD 600 million in 2015 to more than USD 1.4 billion in 2017, and almost USD 1.2 billion in 2018).

Turning to the *balance of payments*, the current account deficit further widened in 2014, reaching 8.9% of GDP compared to 8.3% of GDP in 2013, and is expected to remain at an unsustainable large level in 2015, despite the decline in oil prices, weaker domestic economic activity and improved export performance. The negative effects on tourism of the Sousse terrorist attack are expected to put additional pressure on the current account deficit, pushing the deficit back towards 8.8% of GDP. Private capital inflows in Tunisia have also weakened since 2011, contributing to the vulnerabilities of the balance of payments. Net foreign direct investments, which averaged almost 5% of GDP during 2005-2010, have declined to just over 2% of GDP in the last two years.

In this context of wide current account deficit and weaker capital inflows, Tunisia has had to increasingly rely on official financial inflows. In 2015, Tunisia also managed to cover part of its external financing gap through the issuance in January 2015 of a 10-year, USD 1 billion Eurobond at 5.75%, which was oversubscribed by international investors despite not including a sovereign guarantee by a foreign donor.

Official foreign exchange reserves ended 2014 at USD 7.7 billion, or the equivalent of barely 3 months of imports, which compares to an initial target of USD 9.0 billion under the IMF programme. The USD 1 billion international bond issued in January 2015 raised the reserve level but, by the end of October, reserves had dropped back to about USD 6.5 billion, or just under 4 months of imports, as tourism income fell in the wake of the terrorist attacks. The reserve level at the end of 2015 is now expected to be USD 7.5 billion. This is well below the USD 8.2 billion the IMF had foreseen for the end of the year in the context of the 6th review of the programme (completed in September 2015) and compares to a USD 10.1 billion reserve target under the original programme.

External debt increased from 48% of GDP in 2011 to an estimated 56.2% of GDP in 2014, and it is expected to peak at 72.3% of GDP in 2018 before starting to reverse this trend. Tunisia's sovereign ratings have been downgraded several times since 2011, the last time in 2014 (from Ba2 to Ba3 by Moody's and from BB to BB- by Standard & Poor's.

Tunisia continues to face significant structural reform challenges. While the country enjoyed during 2000-2010 a period of relatively high per-capita economic growth (one of the highest among the oil importers in the Middle East and North Africa (MENA) region), it continues to suffer from a number of structural deficiencies. In particular, it has an excessive reliance on an export-oriented, low-value added industry located near the coastline, which contributes to an unbalanced pattern of regional economic development, and suffers from rigid labour markets and skill mismatches, which contributes to high unemployment, particularly among the youth. Coupled with the perception of transparency and economic governance as weak, the growth model has resulted in an unfair distribution of economic gains among the population.

Overall, reform progress remains limited, in part due to the delicate political transition, although the recent positive momentum is encouraging and the government remains

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committed to continuing on a positive reform path. The bulk of the groundwork for some key reforms (notably on tax policy and administration, improvement of the business and investment climate, and the reform of the financial sector) has been substantial and should pave the way for the implementation of deeper reforms. Other reforms will still require further intermediate steps, strong political commitment and support to be fully implemented (such as price subsidy reform and the improvement of the social safety net).

On 7 June 2013 the IMF Board approved, as noted, an USD 1.75 billion (400% of the Tunisian quota), two-year, Stand-By Arrangement (SBA) and which was subsequently extended until December 2015. Tunisia has requested a successor arrangement with the IMF, which is expected to have a 4-year duration and is likely to be supported by an Extended Fund Facility (EFF). The programme, which still being negotiated, is expected to be sent for IMF Board approval in the spring of 2016. Although its final amount remains to be determined, it is expected to be larger than the current SBA.

The revised projections that were produced in November by the IMF point towards significant balance of payments needs for the period 2016-2017, with the total external financing gap estimated at USD 5.1 billion (USD 2.7 billion in 2016 and USD 2.4 billion in 2017). This financing gap can broadly be attributed to three factors: a persistently large current account deficit, the need to build up foreign exchange reserves over the period 2016-17, and the large debt amortization requirements expected, especially for 2017. The proposed new MFA operation of EUR 500 million would cover 19.2% of the estimated residual financing gap.

Tunisia has also enjoyed the financial support in the past of a number of bilateral donors (in particular from the US and Japan, but also from Algeria), as well as from other multilateral donors (the World Bank and the African Development Bank in particular) and they are likely to contribute additional funds in the coming period. Among the assistance provided by the EU, the MFA-I of EUR 300 million, which is being successfully implemented, is strongly contributing towards the implementation of key reforms, and providing much needed financial support.

- Existing provisions in the area of the proposal

Previously, Decision No 534/2014/EU providing a first macro-financial assistance to the Republic of Tunisia in the amount of EUR 300 million was adopted by the European Parliament and of the Council on 15 May 2014[1].

- Consistency with the other policies and objectives of the Union

The EU seeks to develop a close relationship to Tunisia and to support Tunisia’s economic and political reforms. In 1995, Tunisia became the first country in the Southern Mediterranean to sign an Association Agreement with the EU. This agreement, which came into force in 1998, continues to be the legal basis for bilateral cooperation. Bilateral relations have been further reinforced under the EU’s ENP, including through the adoption of five-year ENP Action Plans establishing strategic objectives for this cooperation, the latest of which covers 2013-2017. Tunisia is also a member of the Union for the Mediterranean. Economic ties with the EU are also important. Tunisia finalized the dismantling of tariffs for industrial products in 2008, thus becoming the first Mediterranean country to conclude a free trade agreement with the EU. Tunisia is the neighbouring country that conducts the largest share of its trade with the EU. In 2014, the EU was the source of 64.7% of Tunisia’s imports and the destination of 72.5% of its exports. Tunisia has also a high dependence on the EU in terms of

[1] OJ L 151, 21.5.2014, p. 9.

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FDI and other financial flows, remittances and tourism inflows. The EU and Tunisia formally started negotiations on a DCFTA in October 2015, with the goal to allowing the full access of Tunisia to the EU's single market.

The EU MFA would complement the grants mobilised under the ENI and the Umbrella Programme, and in particular the conditionalities envisaged under the PAR-IV and PAR-V budget support packages being implemented by the EU. By supporting the adoption by the Tunisian authorities of an appropriate framework for macroeconomic policy and structural reforms, the EU's MFA would enhance the added value of the overall EU involvement increasing the effectiveness of the EU's overall intervention including through other financial instruments.

Since the Arab Spring, the EU has declared on various occasions its commitment to support Tunisia in its economic and political reform process. The EU has doubled its financial support in the form of grants, making of it the largest recipient of funding under the SPRING and Umbrella Programmes so far.

While Tunisia's road to full democracy is not without difficulties and significant uncertainties remain, the country has taken very significant steps towards political reform. There is also a strong and intensifying framework of bilateral relations between the EU and Tunisia under the Association Agreement, the ENP and other recent initiatives.

In this context, the Tunisia is deemed to meet the political preconditions for the granting of MFA to third countries, notably in terms of respect for democracy, human rights and the rule of law, and of being a country with which the EU maintains close political and economic relations. A detailed assessment of the satisfaction of these political criteria for MFA produced by the European External Action Service is annexed to the Commission Staff Working Document accompanying the proposal. And the MFA proposal is consistent with the EU's commitment to support Tunisia's economic and political transition.

2. RESULTS OF CONSULTATIONS WITH THE INTERESTED PARTIES AND IMPACT ASSESSMENT

- Consultation of interested parties

MFA is provided as an integral part of the international support to the economic stabilisation of Tunisia. In the preparation of this proposal for MFA, the Commission services have consulted with the International Monetary Fund and the World Bank, which have already put in place sizeable financing programs and are preparing new ones. The Commission has consulted the Economic and Financial Committee on 10 December 2015, receiving an endorsement for the proposal. The Commission has also been in regular contact with the Tunisian authorities.

- Collection and use of expertise

An Operational Assessment verifying the quality and reliability of Tunisia's public financial circuits and administrative procedures was carried out by the Commission with the assistance of external experts during the month of December 2013. Its results, which were broadly positive, were shared with Tunisian authorities and the EU Delegation in January 2014 for further work on possible areas for improvement.

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- Impact Assessment

The Union's macro-financial assistance is an exceptional emergency instrument and addresses balance-of-payment crises in third countries. Therefore, this MFA proposal is exempted from the requirement to carry out an Impact Assessment in accordance with the Commission's Better Regulation Guidelines (SWD(2015) 111 final) as there is a political imperative to move ahead quickly in this emergency situation requiring a rapid response.

More generally, the MFA and the economic adjustment and reform programme attached to it will help alleviate Tunisia's short-term financing needs while supporting policy measures aimed at strengthening medium-term balance of payments and fiscal sustainability and raising sustainable growth, as agreed to be agreed the IMF in the context of the new programme. It will notably help improve the efficiency and transparency of public finance management; and promote structural reforms supporting, as ultimate goals, fiscal consolidation and balance of payments adjustment, as well as productivity and employment growth, and promoting regulatory harmonisation and economic integration with the EU, including in the context of the Deep and Comprehensive Free Trade Agreement currently under negotiation.

3. LEGAL ELEMENTS OF THE PROPOSAL

- Summary of the proposed action

The European Union shall make MFA available to Tunisia for a total maximum amount of EUR 500 million, provided in the form of a medium term loan. The assistance will contribute to cover Tunisia's residual external financing needs in 2016-17, as identified by the Commission based on the estimates of the IMF.

The assistance is planned to be disbursed in three loan instalments of EUR 200 million, EUR 150 million and EUR 150 million, respectively. The disbursement of the first instalment is expected to take place in the middle of 2016. The second instalment, conditional on a number of policy measures, could be disbursed in the fourth quarter of 2016. The third and last instalment could be made available, provided the policy measures are met, during the first half of 2017. The assistance will be managed by the Commission. Specific provisions on the prevention of fraud and other irregularities, consistent with the Financial Regulation, are applicable.

As usual with the MFA instrument, the disbursements would be conditional on successful programme reviews under the new IMF's financial arrangement. In addition, the Commission and the Tunisian authorities would agree on specific structural reform measures in a Memorandum of Understanding. The Commission will target structural reforms aimed at improving the overall macroeconomic management and the conditions for sustainable growth (e.g. targeting the transparency and efficiency of public finance management; fiscal reforms; reforms to strengthen the social safety net; labour market reforms; and reforms to improve the regulatory framework for trade and investment). These reform measures would support the authorities’ reform agenda and complement the programmes agreed with the IMF, the World Bank and other donors, as well as the policy programmes associated with the EU’s budgetary support operations. They would be consistent with the main economic reform priorities agreed between the EU and Tunisia in the context of the ENP Joint Action Plan and other strategic documents. They will also build upon the structural reforms implemented under MFA-I.

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The decision to disburse the full MFA in the form of loans is justified by Tunisia's level of development (as measured by its per-capita income) and debt indicators. It is also consistent with the treatment given to Tunisia by the World Bank and the IMF. Indeed, Tunisia is not eligible for concessional financing from either the IDA or the IMF's Extended Credit Facility.

- Legal basis

The legal basis for this proposal is Article 212 TFEU.

- Subsidiarity principle

The subsidiarity principle is respected as the objectives of restoring short-term macroeconomic stability in Tunisia cannot be sufficiently achieved by the Member States alone and can be better achieved by the European Union. The main reasons are the budgetary constraints faced at the national level and the need for strong donor coordination in order to maximise the scale and effectivenes of the assistance.

- Proportionality principle

The proposal complies with the proportionality principle: it confines itself to the minimum required in order to achieve the objectives of short-term macro economic stability and does not go beyond what is necessary for that purpose.

As identified by the Commission based on the estimates of the IMF in the context of the future EFF Arrangement, the amount of the MFA-II assistance corresponds to 19.2% of the residual financing gap for the period 2016-2017. This is consistent with standard rules on burden-sharing for MFA operations. Given the assistance pledged to Tunisia by other bilateral and multilateral donors and creditors, it is deemed an appropriate level of burden-sharing for the EU. If taken into account the undisbursed third tranche from MFA-I, the total financial assistance of MFA-I and MFA-II in the period 2016-2017 corresponds to 23.4% of the estimated residual financing gap.

- Choice of instruments

Project finance or technical assistance would not be suitable or sufficient to address these macroeconomic objectives. The key value added of the MFA in comparison to other EU instruments would be to alleviate the external financial constraint and to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. By helping to put in place an appropriate overall policy framework, MFA can increase the effectiveness of the actions financed in Tunisia under other, more narrowly focused EU financial instruments.

4. BUDGETARY IMPLICATION

The planned assistance would be provided in the form of a loan and should be financed through a borrowing operation that the Commission will conduct on behalf of the EU. The budgetary costs of the assistance will correspond to the provisioning, at a rate of 9%, of the amounts disbursed in the guarantee fund for external lending of the EU, from budget line 01 03 06 ("the provisioning of the Guarantee Fund"). Assuming that the first and second loan disbursements will be made in 2016 for a total amount of EUR 350 million and the third loan disbursement in 2017 for the amount of EUR 150 million, and according to the rules

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governing the guarantee fund mechanism, the provisioning will take place in the 2018-19 budgets. Based on current projections on the utilisation of the budget line 01 03 06, the Commission assesses that the budgetary impact of the operation can be accommodated.

5. OPTIONAL ELEMENTS

- Review/revision/sunset clause

The proposal includes a sunset clause. The proposed MFA would be made available for two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding.

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Proposal for a

DECISION OF THE EUROPEAN PARLIAMENT AND OF THE COUNCIL

providing further macro-financial assistance to Tunisia

THE EUROPEAN PARLIAMENT AND THE COUNCIL OF THE EUROPEAN UNION,

Having regard to the Treaty on the Functioning of the European Union, and in particular Article 212 thereof,

Having regard to the proposal from the European Commission[2],

After transmission of the draft legislative act to the national parliaments,

Acting in accordance with the ordinary legislative procedure[3],

Whereas:

(1) Relations between the European Union ('the Union') and the Republic of Tunisia ('Tunisia') are developing within the framework of the European Neighbourhood Policy (ENP). Tunisia was the first Mediterranean country to sign an Association Agreement with the EU on 17 July 1995, which came into force on 1 March 1998. Under this Association Agreement, Tunisia finalized dismantling tariffs for industrial products in 2008, thus making Tunisia the first Mediterranean country to enter in a free trade area with the Union. Bilateral political dialogue and economic cooperation have been further developed within the framework of ENP Action Plans, of which the most recent covers the period 2013-2017.

(2) Following the revolution and the ousting of President Ben Ali on 14 January 2011, Tunisia's first free and democratic elections took place on 23 October 2011. A new constitution was adopted in January 2014, and parliamentary and presidential elections took place in the fourth quarter of 2014, with concerted efforts from the main political actors to proceed with reforms towards a fully-fledged democratic system.

(3) In parallel to this political transition process, the Tunisian economy has suffered from continuous domestic unrest, regional instability (including the impact of the Libyan conflicts) and a weak international environment (particularly in the Union, Tunisia's main trading partner). These unfavourable developments substantially weakened its growth performance, as well as its fiscal and balance of payments positions.

2 OJ C […], […], p. […].

3 Position of the European Parliament of … and Decision of the Council of … .

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(4) Since 2011, following the political changes in Tunisia, the Union has expressed its unequivocal commitment to supporting Tunisia in its economic and political reform process. It has increased its financial support to Tunisia, strengthening its cooperation in many fields, including the civil society the electoral system, security, regional development and social and economic reforms. And it has offered the possibility of concluding a Deep and Comprehensive Free Trade Area agreement, the negotiations of which were launched in October 2014.

(5) In this difficult economic and financial context, in April 2013, the Tunisian authorities and the International Monetary Fund (IMF) agreed on a non-precautionary three-year Stand-By-Arrangement of SDR 1,150 million (Special Drawing Rights) in support of Tunisia's economic adjustment and reform programme, which was extended until the end of 2015. In total, USD 1.5 billion has been drawn under the IMF programme following six completed programme reviews.

(6) In August 2013, Tunisia requested complementary macro-financial assistance from the Union. In response, macro-financial assistance of EUR 300 million in the form of loans was adopted in May 2014 (MFA-I)[4] . The Memorandum of Understanding defining the policy conditions related to MFA-I entered into force on 4 March 2015. Following implementation of the agreed policy measures, the first tranche of MFA-I was disbursed on 7 May 2015 and the second tranche was disbursed on 1 December 2015.

(7) The Union has made EUR 524 million available in grants for the period 2011-15 under its regular cooperation programme in support of Tunisia's economic and political reform agenda. In addition, EUR 155 million has been allocated to Tunisia in 2011-2013 under the "Support for partnership, reforms and inclusive growth" (SPRING) programme and EUR 122 million in 2014-2015 under the "Umbrella" programme. Moreover, the European Investment Bank has provided loans in the amount of EUR 1.338 million since 2011.

(8) In 2015, the Tunisia's economy has been significantly affected by several terrorist attacks that have targeted key economic industries like tourism and transport, as well as aiming to disrupt the consolidation of its political transition. These attacks have weighted on the economic recovery Tunisia was beginning to experience. Together with persistent regional instability (including the reactivation of the Libyan conflict), and still weak European and global economic environment, these events have exacerbated Tunisia’s already weak balance of payments and fiscal positions. This has resulted in important external and budgetary financial gaps.

(9) In this challenging context, the Union has reaffirmed its commitment to supporting Tunisia in its economic and political reform process. In particular, this commitment was expressed in the conclusions of the meeting of the Association Council between the Union and Tunisia in March 2015, as well as following the June 2015 terrorist attack in Sousse, in the Council conclusions of 20 July 2015. Political and economic support from the Union to Tunisia's reform process is consistent with the Union's policy towards the Southern Mediterranean region, as set out in the context of the ENP.

[4] Decision No 534/2014/EU of 15 May 2014 of the European Parliament and of the Council of 15 May 2014 providing macro-financial assistance to the Republic of Tunisia (OJ L 151, 21.5.2014, p. 9).

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(10) Following the deterioration in Tunisia’s economic and financial situation, the IMF and Tunisia have started discussions on a successor arrangement of a larger amount, which could take the form of an Extended Financing Facility ('IMF programme') and would likely cover a period of four years, starting in the Spring of 2016. The new IMF programme would aim at alleviating Tunisia’s short-term balance of payment difficulties while encouraging the implementation of strong adjustment measures.

(11) In August 2015, in view of the worsening economic situation and outlook, Tunisia requested additional macro-financial assistance from the Union.

(12) Given that Tunisia is a country covered by the ENP, it should be considered to be eligible to receive macro-financial assistance from the Union.

(13) The Union’s macro-financial assistance should be an exceptional financial instrument of untied and undesignated balance-of-payments support, which aims at addressing the beneficiary’s immediate external financing needs and should underpin the implementation of a policy programme containing strong immediate adjustment and structural reform measures designed to improve the balance-of-payments position in the short term.

(14) Given that there is still a significant residual external financing gap in Tunisia's balance of payments over and above the resources provided by IMF and other multilateral institutions, the Union macro-financial assistance to be provided to Tunisia is, under the current exceptional circumstances, considered to be an appropriate response to Tunisia's request for support to the economic stabilisation, in conjunction with the IMF programme. The Union's macro-financial assistance would support the economic stabilisation and the structural reform agenda of Tunisia, supplementing resources made available under the IMF's financial arrangement.

(15) The Union's macro-financial assistance should aim to support the restoration of a sustainable external financing situation for Tunisia thereby supporting its economic and social development.

(16) The determination of the amount of the Union's macro-financial assistance is based on a complete quantitative assessment of Tunisia's residual external financing needs, and takes into account its capacity to finance itself with its own resources, in particular the international reserves at its disposal. The Union's macro-financial assistance should complement the programmes and resources provided by the IMF and the World Bank. The determination of the amount of the assistance also takes into account expected financial contributions from multilateral donors and the need to ensure fair burden sharing between the Union and other donors, as well as the pre-existing deployment of the Union's other external financing instruments in Tunisia and the added value of the overall Union involvement.

(17) The Commission should ensure that the Union's macro-financial assistance is legally and substantially in line with the key principles, objectives and measures taken within the different areas of external action and other relevant Union policies.

(18) The Union's macro-financial assistance should support the Union's external policy towards Tunisia. Commission services and the European External Action Service should work closely together throughout the macro-financial assistance operation in order to coordinate, and to ensure the consistency of, Union external policy.

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(19) The Union's macro-financial assistance should support Tunisia's commitment to values shared with the Union, including democracy, the rule of law, good governance, respect for human rights, sustainable development and poverty reduction, as well as its commitment to the principles of open, rule-based and fair trade.

(20) A pre-condition for granting the Union's macro-financial assistance should be that Tunisia respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights. In addition, the specific objectives of the Union's macro-financial assistance should strengthen the efficiency, transparency and accountability of the public finance management systems in Tunisia and to promote structural reforms aimed at supporting sustainable and inclusive growth, employment creation and fiscal consolidation. Both fulfilment of the preconditions and the achievement of those objectives should be regularly monitored by the Commission and the European External Action Service.

(21) In order to ensure that the Union’s financial interests linked to the Union’s macro-financial assistance are protected efficiently, Tunisia should take appropriate measures relating to the prevention of, and fight against, fraud, corruption and any other irregularities linked to the assistance. In addition, provision should be made for the Commission to carry out checks and for the Court of Auditors to carry out audits.

(22) Release of the Union's macro-financial assistance is without prejudice to the powers of the European Parliament and the Council (as budgetary authority).

(23) The amounts of the provision required for macro-financial assistance should be consistent with the budgetary appropriations provided for in the multi-annual financial framework.

(24) The Union's macro-financial assistance should be managed by the Commission. In order to ensure that the European Parliament and the Council are able to follow the implementation of this Decision, the Commission should regularly inform them of developments relating to the assistance and provide them with relevant documents.

(25) In order to ensure uniform conditions for the implementation of this Decision, implementing powers should be conferred on the Commission. Those powers should be exercised in accordance with Regulation (EU) No 182/2011 of the European Parliament and of the Council[5].

(26) The Union's macro-financial assistance should be subject to economic policy conditions, to be laid down in a Memorandum of Understanding. In order to ensure uniform conditions of implementation and for reasons of efficiency, the Commission should be empowered to negotiate such conditions with the Tunisian authorities under the supervision of the committee of representatives of the Member States in accordance with Regulation (EU) No 182/2011. Under that Regulation, the advisory procedure should, as a general rule, apply in all cases other than as provided for in that Regulation. Considering the potentially important impact of assistance of more than EUR 90 million, it is appropriate that the examination procedure be used for operations above that threshold. Considering the amount of the Union's macro-

5 Regulation (EU) No 182/2011 of the European Parliament and of the Council of 16 February 2011 laying down the rules and general principles concerning mechanisms for control by Member States of the Commission's exercise of implementing powers (OJ L 55, 28.2.2011, p. 13).

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financial assistance to Tunisia, the examination procedure should apply to the adoption of the Memorandum of Understanding, and to any reduction, suspension or cancellation of the assistance,

HAVE ADOPTED THIS DECISION:

Article 1

1. The Union shall make macro-financial assistance of a maximum amount of EUR 500 million available to Tunisia ("the Union's macro-financial assistance"), with a view to supporting Tunisia's economic stabilisation and a substantive reform agenda. The assistance shall contribute to covering Tunisia's balance of payments needs as identified in the IMF programme.

2. The full amount of the Union's macro-financial assistance shall be provided to Tunisia in the form of loans. The Commission shall be empowered on behalf of the Union to borrow the necessary funds on the capital markets or from financial institutions and to on-lend them to Tunisia. The loans shall have a maximum average maturity of 15 years.

3. The release of the Union's macro-financial assistance shall be managed by the Commission in a manner consistent with the agreements or understandings reached between the International Monetary Fund (IMF) and Tunisia, and with the key principles and objectives of economic reforms set out in the EU-Tunisia Association Agreement agreed under the European Neighbourhood Policy (ENP). The Commission shall regularly inform the European Parliament and the Council of developments regarding the Union's macro-financial assistance, including disbursements thereof, and shall provide those institutions with the relevant documents in due time.

4. The Union's macro-financial assistance shall be made available for a period of two and a half years, starting from the first day after the entry into force of the Memorandum of Understanding referred to in Article 3(1).

5. Where the financing needs of Tunisia decrease fundamentally during the period of the disbursement of the Union's macro-financial assistance compared to the initial projections, the Commission, acting in accordance with the examination procedure referred to in Article 7(2), shall reduce the amount of the assistance or suspend or cancel it.

Article 2

1. A pre-condition for granting the Union's macro-financial assistance shall be that Tunisia respects effective democratic mechanisms – including a multi-party parliamentary system – and the rule of law, and guarantees respect for human rights.

2. The Commission and the European External Action Service shall monitor the fulfilment of this pre-condition throughout the life-cycle of the Union's macro-financial assistance.

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3. Paragraphs 1 and 2 of his Article shall be applied in accordance with Council Decision 2010/427/EU[6].

Article 3

1. The Commission, in accordance with the examination procedure referred to in Article 7(2), shall agree with the Tunisian authorities on clearly defined economic policy and financial conditions, focusing on structural reforms and sound public finances, to which the Union's macro-financial assistance is to be subject, to be laid down in a Memorandum of Understanding ("the Memorandum of Understanding"). The economic policy and financial conditions set out in the Memorandum of Understanding shall be consistent with the agreements or understandings referred to in Article 1(3), including the macroeconomic adjustment and structural reform programmes implemented by Tunisia with the support of the IMF.

2. The conditions referred to in paragraph 1 shall aim, in particular, at enhancing the efficiency, transparency and accountability of the public finance management systems in Tunisia, including for the use of the Union's macro-financial assistance. Progress in mutual market opening, the development of rules-based and fair trade and other priorities in the context of the Union's external policy shall also be duly taken into account when designing the policy measures. Progress in attaining those objectives shall be regularly monitored by the Commission.

3. The detailed financial terms of the Union's macro-financial assistance shall be laid down in a Loan Agreement to be concluded between the Commission and the Tunisian authorities.

4. The Commission shall verify at regular intervals that the conditions referred to in Article 4(3) continue to be met, including whether the economic policies of Tunisia are in accordance with the objectives of the Union's macro-financial assistance. In so doing, the Commission shall coordinate closely with the IMF and the World Bank, and, where necessary, with the European Parliament and the Council.

Article 4

1. Subject to the conditions in paragraph 3, the Union's macro-financial assistance shall be made available by the Commission in three loan instalments. The size of each instalment shall be laid down in the Memorandum of Understanding referred to in Article 3.

2. The amounts of the Union's macro-financial assistance shall be provisioned, where required, in accordance with Council Regulation (EC, Euratom) No 480/2009[7].

3. The Commission shall decide on the release of the instalments subject to the fulfilment of all of the following conditions:

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6 Council Decision 2010/427/EU of 26 July 2010 establishing the organisation and functioning of the European External Action Service (OJ L 201, 3.8.2010, p. 30).

7 Council Regulation (EC, Euratom) No 480/2009 of 25 May 2009 establishing a Guarantee Fund for external actions (OJ L 145, 10.6.2009, p. 10).

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(a) the pre-condition set out in Article 2;

(b) a continuous satisfactory track record of implementing a policy programme that contains strong adjustment and structural reform measures supported by a non-precautionary IMF credit arrangement; and

(c) the satisfactory implementation of the economic policy and financial conditions agreed in the Memorandum of Understanding.

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.

4. Where the conditions in paragraph 3 are continuously not met, the Commission shall temporarily suspend or cancel the disbursement of the Union's macro-financial assistance. In such cases, it shall inform the European Parliament and the Council of the reasons for that suspension or cancellation.

5. The Union's macro-financial assistance shall be disbursed to the Central Bank of Tunisia. Subject to the provisions to be agreed in the Memorandum of Understanding, including a confirmation of residual budgetary financing needs, the Union funds may be transferred to the Tunisian Ministry of Finance as the final beneficiary.

Article 5

1. The borrowing and lending operations related to the Union's macro-financial assistance shall be carried out in euro using the same value date and shall not involve the Union in the transformation of maturities, or expose it to any exchange or interest rate risk, or to any other commercial risk.

2. Where the circumstances permit, and if Tunisia so requests, the Commission may take the steps necessary to ensure that an early repayment clause is included in the loan terms and conditions and that it is matched by a corresponding clause in the terms and conditions of the borrowing operations.

3. Where circumstances permit an improvement of the interest rate of the loan and if Tunisia so requests, the Commission may decide to refinance all or part of its initial borrowings or may restructure the corresponding financial conditions. Refinancing or restructuring operations shall be carried out in accordance with paragraphs 1 and 4 and shall not have the effect of extending the maturity of the borrowings concerned or of increasing the amount of capital outstanding at the date of the refinancing or restructuring.

4. All costs incurred by the Union which relate to the borrowing and lending operations under this Decision shall be borne by Tunisia.

5. The Commission shall inform the European Parliament and the Council of developments in the operations referred to in paragraphs 2 and 3.

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Article 6

1. The Union's macro-financial assistance shall be implemented in accordance with Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council[8] and Commission Delegated Regulation (EU) No 1268/2012[9].

2. The implementation of the Union's macro-financial assistance shall be under direct management.

3. The Loan Agreement to be agreed with the Tunisian authorities shall contain provisions:

   (a) ensuring that Tunisia regularly checks that financing provided from the budget of the Union has been properly used, takes appropriate measures to prevent irregularities and fraud, and, if necessary, takes legal action to recover any funds provided under this Decision that have been misappropriated;

   (b) ensuring the protection of the Union's financial interests, in particular providing for specific measures in relation to the prevention of, and fight against, fraud, corruption and any other irregularities affecting the Union's macro-financial assistance, in accordance with Council Regulation (EC,Euratom) No 2988/95[10], Council Regulation (EC, Euratom) No 2185/96[11] and Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council[12];

   (c) expressly authorising the Commission, including the European Anti-Fraud Office, or its representatives to carry out checks, including on-the-spot checks and inspections;

   (d) expressly authorising the Commission and the Court of Auditors to perform audits during and after the availability period of the Union's macro-financial assistance, including document audits and on-the-spot audits, such as operational assessments;

   (e) ensuring that the Union is entitled to early repayment of the loan where it has been established that, in relation to the management of the Union's macro-financial assistance, Tunisia has engaged in any act of fraud or corruption or any other illegal activity detrimental to the financial interests of the Union.

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8 Regulation (EU, Euratom) No 966/2012 of the European Parliament and of the Council of 25 October 2012 on the financial rules applicable to the general budget of the Union and repealing Council Regulation (EC, Euratom) No 1605/2002 (OJ L 298, 26.10.2012, p. 1).

9 Commission Delegated Regulation (EU) No 1268/2012 of 29 October 2012 on the rules of application of Regulation (EU, Euratom) No 966/2012 on the financial rules applicable to the general budget of the Union (OJ L 362, 31.12.2012, p. 1).

10 Council Regulation (EC, Euratom) No 2988/95 of 18 December 1995 on the protection of the European Communities financial interests (OJ L 312, 23.12.1995, p. 1).

11 Council Regulation (EC, Euratom) No 2185/96 of 11 November 1996 concerning on-the-spot checks and inspections carried out by the Commission to protect the Communities' financial interests against fraud and other irregularities (OJ L 292, 15.11.1996, p. 2).

12 Regulation (EU, Euratom) No 883/2013 of the European Parliament and of the Council of 11 September 2013 concerning investigations conducted by the European Anti-Fraud Office (OLAF) and repealing Regulation (EC) No 1073/1999 of the European Parliament and of the Council and Council Regulation (Euratom) No 1074/1999 (OJ L 248, 18.9.2013, p. 1).

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4. Before the implementation of the Union's macro-financial assistance, the Commission shall assess, by means of an operational assessment, the soundness of Tunisia's financial arrangements, the administrative procedures, and the internal and external control mechanisms which are relevant to the assistance.

Article 7

1. The Commission shall be assisted by a committee. That committee shall be a committee within the meaning of Regulation (EU) No 182/2011.

2. Where reference is made to this paragraph, Article 5 of Regulation (EU) No 182/2011 shall apply.

Article 8

1. By 30 June of each year, the Commission shall submit to the European Parliament and to the Council a report on the implementation of this Decision in the preceding year, including an evaluation of that implementation. The report shall:

   (a) examine the progress made in implementing the Union's macro-financial assistance;

   (b) assess the economic situation and prospects of Tunisia, as well as progress made in implementing the policy measures referred to in Article 3(1);

   (c) indicate the connection between the economic policy conditions laid down in the Memorandum of Understanding, Tunisia’s on-going economic and fiscal performance and the Commission’s decisions to release the instalments of the Union's macro-financial assistance.

2. Not later than two years after the expiry of the availability period referred to in Article 1(4), the Commission shall submit to the European Parliament and to the Council an ex-post evaluation report, assessing the results and efficiency of the completed Union's macro-financial assistance and the extent to which it has contributed to the aims of the assistance.

Article 9

This Decision shall enter into force on the third day following that of its publication in the *Official Journal of the European Union*.

Done at Brussels,

For the European Parliament *The President*	*For the Council* *The President*

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LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

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1.2. Policy area(s) concerned in the ABM/ABB structure

1.3. Nature of the proposal/initiative

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LEGISLATIVE FINANCIAL STATEMENT

1. FRAMEWORK OF THE PROPOSAL/INITIATIVE

1.1. Title of the proposal/initiative

Decision providing further Macro-financial assistance to the Republic of Tunisia

1.2. Policy area(s) concerned in the ABM/ABB structure[13]

Policy area: Title 01 – Economic and Financial Affairs

Activity: 03 – International economic and financial affairs

1.3. Nature of the proposal/initiative

X The proposal/initiative relates to **a new action**

1.4. Objectives

1.4.1. The Commission's multiannual strategic objective(s) targeted by the proposal/initiative

"To promote prosperity beyond the EU"

The major area of DG ECFIN related activity pertains to:

1. Fostering the implementation of the European Neighbourhood Policy by deepening economic analysis and strengthening policy dialogue and advice on the economic aspects of the Action Plans.

2. Developing, monitoring and implementing macro-financial assistance for partner third countries, in co-operation with the relevant international financial institutions.

1.4.2. Specific objective(s) and ABM/ABB activity(ies) concerned

Specific objective No 1: "Providing macro-financial assistance to third countries in resolving their balance of payment crises and restoring external debt sustainability"

ABM/ABB activity(ies) concerned: International Economic and Financial Relations, global governance.

1.4.3. Expected result(s) and impact

The proposed assistance consists of an EU loan of EUR 500 million to the Republic of Tunisia ('Tunisia'), with a view to contributing to a more sustainable balance of payments situation. The assistance, to be disbursed in three instalments, should help the country overcome its difficult economic and balance of payments situation it is experiencing, which has been exacerbated by the terrorist attacks it suffered in 2015 and by persistent

[13] ABM: Activity-Based Management – ABB: Activity-Based Budgeting.

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domestic and regional unrest. It will also promote structural reforms aimed at raising sustainable economic growth and improving public finance management.

1.4.4. Indicators of results and impact

The authorities will be required to report on a set of indicators to the Commission services on a regular basis and provide a comprehensive report on the compliance with the agreed policy conditions ahead of the disbursement of the second and third instalments of the assistance.

The Commission services will continue to monitor public finance management, following the operational assessment of the financial circuits and administrative procedures in Tunisia that will be carried out in preparation of this operation. The EU Delegation in Tunisia will also provide regular reporting on issues relevant for the monitoring of the assistance. The Commission services will remain in close contact with the IMF and the World Bank to benefit from their insights from their on-going activities in Tunisia.

An annual report to the Council and European Parliament is foreseen in the proposed legislative decision, comprising an assessment of the implementation of this operation. An independent ex-post evaluation of the assistance will be carried out within two years after the expiry of the implementation period.

1.5. Grounds for the proposal/initiative

1.5.1. Requirement(s) to be met in the short or long term

The disbursement of the assistance will be conditional upon a satisfactory track record in the implementation of the future economic programme between Tunisia and the IMF, which is expected to be in place by March 2016. In addition, the Commission shall agree with the Tunisian authorities on specific policy conditions, listed in a Memorandum of Understanding, to be met before the second and third instalments are released by the Commission.

1.5.2. Added value of EU involvement

By helping the country overcome the economic shock caused by the 2015 terrorist attacks, and by the domestic and regional unrest, the proposed MFA will contribute to promote macroeconomic stability and, economic reforms, while supporting the consolidation of the country’s political transition. By complementing the resources made available by the international financial institutions, the EU and other donors, it will contribute to the overall effectiveness of the package of financial support provided by the international donor community.

The proposed programme will also strengthen the government's reform commitment and its aspiration towards closer relations with the EU. This result will be achieved, inter alia, through appropriate conditionality for the disbursement of the assistance. In a larger context, the programme will signal to the other countries in the region that the EU continues to to support countries embarking on a clear path towards political reforms in times of economic difficulties.

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1.5.3. *Lessons learned from similar experiences in the past*

Since 2004, a total of sixteen ex-post evaluations have been carried out on macro-financial assistance operations. These evaluations conclude that MFA operations do contribute, albeit sometimes modestly and indirectly, to the improvement of the external sustainability, the macroeconomic stability and the achievement of structural reforms in the recipient country. In most cases, MFA operations had a positive effect on the balance of payments of the beneficiary country and helped to relax their budgetary constraints. They also led to a somewhat higher economic growth.

1.5.4. *Compatibility and possible synergy with other appropriate instruments*

The EU is among the major donors of Tunisia. Financial assistance provided under the European Neighbourhood Instrument (ENI), and earlier under the European Neighbourhood Partnership Instrument (ENPI), amounted to EUR 801 million for the period 2011-2015, which includes EUR 277 million under the SPRING and Umbrella funds (EUR 155 million and EUR 122 million, respectively). These funds were complemented by financing from other EU instruments such as the Instrument for Stability (IfS), the European Instrument for Democracy and Human Rights (EIDHR), the Neighbourhood Investment Facility (NIF) and thematic programmes under the Development and Cooperation Instrument (DCI). The European Investment Bank has also provided loans in the amount of EUR 1.338 million since 2011, of which EUR 200 million in 2015. Lastly, the MFA-I of EUR 300 million approved in 2014 is being satisfactorily implemented, and only the last tranche of EUR 100 million remains to be disbursed.

The key value added of the MFA in comparison to other EU instruments would be to help create a stable macroeconomic framework, including by promoting a sustainable balance of payments and budgetary situation, and an appropriate framework for structural reforms. MFA does not provide a regular financial support nor is meant to support the economic and social development of the recipient countries. It is to be discontinued as soon as the country's external financial situation has been brought back into a sustainable path. Afterwards, regular EU cooperation assistance instruments are meant to take over.

MFA is also meant to be complementary to interventions by the international financial institutions, in particular the adjustment and reform programme supported by the IMF's EFF and the Development Policy Loans of the World Bank.

1.6. Duration and financial impact

X Proposal/initiative of **limited duration**

X Proposal/initiative in effect for 2.5 years from the entry into force of the Memorandum of Understanding, as stated in Article (1.4) of the Decision

X The financial impact is expected to occur from 2016 to 2019

1.7. Management mode(s) envisaged[14]

X **Centralised direct management** by the Commission

[14] Details of management modes and references to the Financial Regulation may be found on the BudgWeb site: http://www.cc.cec/budg/man/budgmanag/budgmanag_en.html

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2. MANAGEMENT MEASURES

2.1. Monitoring and reporting rules

This assistance is of macroeconomic nature and its design is consistent with the future IMF-supported economic programme. The monitoring of the action by the Commission services will take place on the basis of progress in the implementation of the IMF programme and specific reform measures to be agreed with the Tunisian authorities in a Memorandum of Understanding (see also point 1.4.4).

2.2. Management and control system

2.2.1. Risk(s) identified

There are fiduciary, policy and political risks related to the proposed MFA operation.

There is a risk that the macro-financial assistance, which is not dedicated to specific expenses, could be used in a fraudulent way. In general terms, this risk is related to factors such as the quality of management systems in the central bank and the ministry of finance and the appropriatedness of internal and external audit capabilities.

Another key risk to the operation stems from the domestic security situation, in particular related to possible terrorist attacks, which could further destabilise key economic sectors, weaken the authorities' political determination to implement the necessary economic reforms and fuel social unrest. A derailment of the adjustment process could put the objectives of the IMF-supported programme in jeopardy, endanger macroeconomic stability and prevent the effective disbursement of MFA-II. There are also considerable risks from the regional political situation conflict, notably the conflict in Libya, which is having a negative impact on Tunisia's economic and social situation, including through the flow of Libyan refugees.

Finally, there are risks stemming from a possible weakening of the European and global economic environment (given Tunisia’s high dependence on the EU market) and an increase in international energy and food prices, which would have an important effect on Tunisia’s fiscal and balance of payments situation.

2.2.2. Control method(s) envisaged

The macro-financial assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Antifraud Office (OLAF), and by the European Court of Auditors.

2.2.3. Costs and benefits of controls and probable non-compliance rate

The basic costs for the Commission related to the methods of verification and control are described in Table 3.2.1. In addition, there are costs for the European Court of Auditors and of possible interventions of the OLAF. The Operational Assessment, conducted by the Commission services in 2014, not only helps assess risks of misuse of the funds but, as a collateral benefit, it provides useful information on the necessary reforms in the area of public finance management, which can then be reflected in the policy conditionality of the operation. Regarding the probable non-compliance rate, the risk of non-compliance (in the

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form of non-repayment of the loan or misuse of the funds) is judged to be low, based on the experience with the MFA instrument since its creation.

2.3. Measures to prevent fraud and irregularities

To mitigate the risks of fraudulent use several measures will be taken:

First, the Memorandum of Understanding and the Loan Agreement will comprise a set of provisions on inspection, fraud prevention, audits, and recovery of funds in case of fraud or corruption. Also, the assistance will be paid to a dedicated account of the Central Bank of Tunisia.

Moreover, the Commission services have conducted, in January 2014, with the support of external consultants, an Operational Assessment, in order to assess the reliability of financial circuits and administrative procedures that are relevant to this type of assistance. This assessment determined that the framework for sound financial management of macro-financial assistance is sufficiently effective in Tunisia. The Commission has reflected some of the recommendations of the Operational Assessment in the conditionality of public finance management reform included in the MFA I programme and intends to also do so in the conditionality related to the new proposed MFA. The Commission is also using other budget support operations to help the Tunisian authorities improve their public finance management systems, and these efforts are also being supported by other other donors.

Finally, the assistance will be liable to verification, control and auditing procedures under the responsibility of the Commission, including the European Antifraud Office (OLAF) and the European Court of Auditors.

3. ESTIMATED FINANCIAL IMPACT OF THE PROPOSAL/INITIATIVE

3.1. Heading(s) of the multiannual financial framework and expenditure budget line(s) affected

- Existing budget lines

01 03 02: Macro-financial assistance

01 04 01 14 – Provisioning of the Guarantee Fund

<u>In order</u> of multiannual financial framework headings and budget lines.

Heading of multiannual financial framework	Budget line	Type of expenditure	Contribution			
	Number [Description……… ………..……….]	Diff./non-diff. (15)	from EFTA countries[16]	from candidate countries[17]	from third countries	within the meaning of Article 18(1)(aa) of

15 Diff. = Differentiated appropriations / Non-Diff. = Non-differentiated appropriations.

16 EFTA: European Free Trade Association.

17 Candidate countries and, where applicable, potential candidate countries from the Western Balkans.

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						the Financial Regulation
4	01 03 02 Macro-financial assistance	Diff.	NO	NO	NO	NO
4	01 04 01 14 Provisioning of the Guarantee Fund	Diff.	NO	NO	NO	NO

01 04 01 04 – European Union guarantee for EU loans raised for macro-financial assistance to third countries: The Guarantee Fund for external actions has to be provisioned according to the Fund Regulation, as amended. In line with this Regulation, loans are based on the outstanding amount at the end of a year. The Guarantee Fund must be provisioned, using the funds under budget line 01 04 01 14 (“provisioning of the Guarantee Fund"), at a rate of 9% of the total outstanding liabilities. The provisioning amount is calculated at the beginning of the year "n" as the difference between the target amount and the Fund's net assets at the end of the year "n-1". This provisioning amount is introduced in the year "n" to the "n+1" preliminary budget and effectively paid in one transaction at the beginning of the year "n+1" from "the provisioning of the Guarantee Fund" (budget line 01 04 01 14). As a result, 9% (maximum of EUR 45 million) of the effectively disbursed amount will be considered in the target amount at the end of the year "n-1" for the calculation of the provisioning of the Fund.

The budget entry ("p.m.") reflecting the budget guarantee for the loan will be activated only in the case of an effective call on the guarantee. It is not expected that the budget guarantee be called.

☐☐New budget lines requested: not applicable.

3.2. Estimated impact on expenditure

3.2.1. Summary of estimated impact on expenditure

EUR million (to three decimal places)

Heading of multiannual financial framework:	**4**

DG: ECFIN			Year **2016**[18]	Year **2017**	Year **2018**	Year **2019**	**TOTAL**
• Operational appropriations							
Budget line 01 04 01 14 Provisioning of the Guarantee Fund	Commitments	(1a)			31.5	13.5	**45**
	Payments	(2a)			31.5	13.5	**45**

18 Year in which implementation of the proposal/initiative starts.

Appropriations of an administrative nature financed from the envelope of specific programmes[19] (operational assessment and ex-post evaluation)							
Budget line 01 03 02	Commitments	(3)			0.15		**0.15**
	Payments	(3a)			0.05	0.10	**0.15**
TOTAL appropriations for DG ECFIN	Commitments	=1+1a +3			31.65	13.5	**45.15**
	Payments	=2+2a +3			31.55	13.6	**45.15**

• TOTAL operational appropriations	Commitments	(4)			31.65	13.5	**45.15**
	Payments	(5)			31.55	13.6	**45.15**
TOTAL appropriations of an administrative nature financed from the envelope for specific programmes		(6)					

TOTAL appropriations under HEADING 4 of the multiannual financial framework	Commitments	=4+ 6			31.65	13.5	**45.15**
	Payments	=5+ 6			31.55	13.6	**45.15**

19 Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former ‘BA’ lines), indirect research, direct research.

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<u>If more than one heading is affected by the proposal / initiative:</u>

EUR million (to three decimal places)

Heading of multiannual financial framework:	**5**	'Administrative expenditure'				
		Year **2016**	Year **2017**	Year **2018**	Year **2019**	**TOTAL**
DG: ECFIN						
• Human resources		0.039	0.029	0.021	0.016	**0.105**
• Other administrative expenditure		0.025	0.015			**0.040**
TOTAL DG ECFIN	Appropriations	0.064	0.044	0.021	0.016	**0.145**
TOTAL appropriations for HEADING 5 of the multiannual financial framework	(Total commitments = Total payments)	0.064	0.044	0.021	0.016	**0.145**

EUR million (to three decimal places)

		Year **2016**[20]	Year **2017**	Year **2018**	Year **2019**	**TOTAL**
TOTAL appropriations under HEADINGS 1 to 5 of the multiannual financial framework	Commitments	0.064	0.044	31.671	13.516	**45.295**
	Payments	0.064	0.044	31.571	13.616	**45.295**

20 Year in which implementation of the proposal starts.

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3.2.2. *Estimated impact on operational appropriations*

– ☐ The proposal/initiative does not require the use of operational appropriations

– X The proposal/initiative requires the use of operational appropriations, as explained below:

Commitment appropriations in EUR million (to three decimal places)

Indicate objectives and outputs

⇩

SPECIFIC OBJECTIVE NO 1

		Year 2016		Year 2017		Year 2018		Year 2019			
	Type	Number	Cost	Number	Cost	Number	Cost	Number	Cost	Total number	Total Cost
- Output 1	Ex-post evaluation					1	0.15			1	0.15
- Output 2	Provisioning of the Guarantee Fund					1	31.5	1	13.5	2	45
Subtotal for specific objective No 1						2	31.65	1	13.5	3	45.15
TOTAL COST						2	31.65	1	13.5	3	45.15

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3.2.3. Estimated impact on appropriations of an administrative nature

3.2.3.1. Summary

– ☐ The proposal/initiative does not require the use of appropriations of an administrative nature

– X The proposal/initiative requires the use of appropriations of an administrative nature, as explained below:

EUR million (to three decimal places)

	Year **2016**[21]	Year **2017**	Year **2018**	Year **2019**	Enter as many years as necessary to show the duration of the impact (see point 1.6)			**TOTAL**
HEADING 5 of the multiannual financial framework								
Human resources	0.039	0.029	0.021	0.016				**0.105**
Other administrative expenditure	0.025	0.015						**0.040**
Subtotal HEADING 5 of the multiannual financial framework	0.064	0.044	0.021	0.016				**0.145**
Outside HEADING 5[22] **of the multiannual financial framework**								
Human resources								
Other expenditure of an administrative nature								
Subtotal outside HEADING 5 of the multiannual financial framework								
TOTAL	0.065	0.044	0.021	0.016				**0.145**

The administrative appropriations required will be met by the appropriations of the DG which are already assigned to management of the action and/or which have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

[21] Year in which implementation of the proposal/initiative starts.

[22] Technical and/or administrative assistance and expenditure in support of the implementation of EU programmes and/or actions (former 'BA' lines), indirect research, direct research.

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3.2.3.2. Estimated requirements of human resources

– ☐ The proposal/initiative does not require the use of human resources.

– X The proposal/initiative requires the use of human resources, as explained below:

Estimate to be expressed in full time equivalent units

	Year **2016**	Year **2017**	Year 2018	Year 2019	Enter as many years as necessary to show the duration of the impact (see point 1.6)		
• Establishment plan posts (officials and temporary agents)							
01 01 01 01 (Headquarters and Commission's Representation Offices)	0.39	0.29	0.21	0.16			
XX 01 01 02 (Delegations)							
XX 01 05 01 (Indirect research)							
10 01 05 01 (Direct research)							
• External personnel (in Full Time Equivalent unit: FTE)[23]							
XX 01 02 01 (CA, INT, SNE from the "global envelope")							
XX 01 02 02 (CA, INT, JED, LA and SNE in the delegations)							
XX 01 04 **yy**[24] - at Headquarters							
- in delegations							
XX 01 05 02 (CA, SNE, INT - Indirect research)							
10 01 05 02 (CA, SNE, INT - Direct research)							
Other budget lines (specify)							
TOTAL	**0.39**	**0.29**	**0.21**	**0.16**			

XX is the policy area or budget title concerned.

The human resources required will be met by staff from the DG who are already assigned to management of the action and/or have been redeployed within the DG, together if necessary with any additional allocation which may be granted to the managing DG under the annual allocation procedure and in the light of budgetary constraints.

Cost of the staff needed is estimated on the basis of 30% of the annual expenditure for an AD5 - AD 12 grade official.

Description of tasks to be carried out:

Officials and temporary staff	HoU: Supervise and manage the operation, agree on the Loan Agreement review reports, lead missions and assess progress with conditionality compliance. Desk: Prepare the Memorandum of Understanding, liaise with the authorities and the IFIs, liaise with external experts for the operational assessment and ex-post evaluation, conduct review missions, prepare Commission staff reports and Commission procedures related to the management of the assistance.

[23] CA= Contract Agent; LA = Local Agent; SNE = Seconded National Expert; INT = agency staff ('Intérimaire'); JED= 'Jeune Expert en Délégation' (Young Experts in Delegations).

[24] Sub-ceiling for external staff covered by operational appropriations (former "BA" lines).

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External staff	N/A

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3.2.4. *Compatibility with the current multiannual financial framework*

– X Proposal/initiative is compatible the current multiannual financial framework.

3.2.5. *Third-party contributions*

– X The proposal/initiative does not provide for co-financing by third parties.

3.3. Estimated impact on revenue

X Proposal/initiative has no financial impact on revenue.

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