

Macro-financial assistance for the Republic of Tunisia
Loan from the European Union of up to EUR 300 million

MEMORANDUM OF UNDERSTANDING

between

THE EUROPEAN UNION
as Lender

and

THE REPUBLIC OF TUNISIA
as Borrower

[] 2014

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

1. On 15 May 2014, 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") macro-financial assistance (hereafter referred to as "assistance") of up to EUR 300 million in the form of a loan (Decision n° 534/2014/EU of the European Parliament and of the Council of 15 May 2014 providing macro-financial assistance to the Republic of Tunisia¹). 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 face the current external and financial vulnerabilities stemming largely from the prolonged political and economic domestic transition. 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 equal instalments of EUR 100 million each.
3. The first instalment of the assistance shall be disbursed upon the signature and entry into force of this MoU and the corresponding Loan Facility Agreement. The disbursement of the second instalment shall not take place earlier than three months after the release of the first instalment. The disbursement of the third instalment shall not take place earlier than three months after the release of the second instalment.
4. The disbursement of the assistance will be conditional upon a satisfactory track record in the implementation of the current Stand-By Arrangement (SBA) agreed between the Country and the International Monetary Fund (hereafter referred to as "the IMF"), as well as upon 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 economic stabilisation and structural reforms.

The macroeconomic and structural adjustment 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.

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

¹ O.J. L 15 of 21.5.2014, p. 9

fulfilment of the conditionality attached to the instalments in question. Upon receipt of compliance statements from 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 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, better target the social safety net, increase tax collections while enhancing tax equity, strengthen banking regulation, promote trade, and improve the governance of the national statistics system. The concrete policy measures and frame of reference for this evaluation are made explicit in Annex I. In case of 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.

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.

5. 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.
6. 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.
7. 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.
8. 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 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).
9. 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 supply 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.

10. The authorities will ensure, as appropriate, close co-operation with the European Commission.
11. 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.
12. Annexes I and II are an integral part of this MoU.
13. All notices in relation with the present MoU shall validly be given if in writing and sent to:

For the European Union

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

For the Republic of Tunisia

Ministry of Economy and 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 Nouria - 1080
Tunis, Tunisia

14. The present MoU shall enter into force following its signature by the Republic of Tunisia and the European Union and upon its ratification by the Constituent National Assembly.
15. 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.

29 AOUT 2016
Done in Brussels on {....} in four originals in the English language.

REPUBLIC OF TUNISIA
as Borrower

Represented by

the MINISTRY OF ECONOMY AND
FINANCE

Represented by

Le Ministre de l'Economie
et des Finances

Hakim BEN HAMMOUDA

H.E. Hakim ben Hammouda
Minister of Economy and Finance

the CENTRAL BANK OF TUNISIA

Represented by

Ch. Ayari

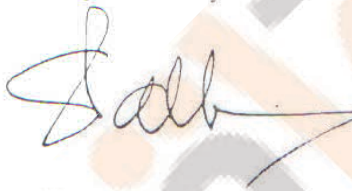
H.E. Dr. Chedly Ayari
Governor of the Central Bank of Tunisia

EUROPEAN UNION
as Lender

Represented by

the EUROPEAN COMMISSION

Represented by



H.E. Siim Kallas
Vice President of the European Commission

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 TRANCHE

TAX REFORM

Action 1

With a view to enhancing tax collection while moving towards a more equitable tax system, the Government will take steps towards reforming the *regime forfaitaire* applicable to income taxation. In particular, it will adopt a decree reducing the number of economic activities eligible for the *regime forfaitaire*.

SOCIAL SAFETY NET

Action 2

With a view to protecting vulnerable social groups in the context of the reform of energy subsidies while supporting fiscal consolidation, the Government will take steps to better target the social safety net.

In particular, the Government will make substantial progress towards establishing a unified database and targeting system based on a single Social Identification Number. This would combine all potential beneficiaries of government social assistance programmes. To that end, the Ministry of Social Affairs, will launch, and make significant progress with, a special survey of the approximately 800,000 households currently benefitting from the *Programme national d'aide aux familles nécessiteuses* (PNAFN) and reduced price health programmes (*Cartes de soins gratuites et à tarifs réduites*).

Progress in this area will build on the ongoing Social Protection Reforms Support Project financed by the Deauville Partnership Transition Fund.

FINANCIAL SECTOR

Action 3

Consistent with the provisions of the new Constitution, the Government will submit to the Parliament the amended law on the Central Bank of Tunisia strengthening its governance. In particular, this amended law will reinforce the central bank's independence, accountability and transparency, as well as its external audit and internal financial control.

STATISTICS

Action 4

With a view to enhancing the governance of the national statistics system, as well as the production and dissemination of statistical data, the *Institut National de Statistique* and other public entities being part of the national statistics system will adopt a national chart of public statistics consistent with the United Nations Fundamental Principles of Official Statistics and the European Statistics Code of Practice.

THIRD TRANCHE

PUBLIC FINANCIAL MANAGEMENT

Action 5

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

SOCIAL SAFETY NET

Action 6

The Government will adopt or reinforce a cash transfer support programme to compensate vulnerable households affected by the reform of the energy price subsidies. The Ministry of Social Affairs will previously set up an interactive and dynamic database on vulnerable and low income households based on a single Social Identification Number.

FINANCIAL SECTOR

Action 7

With a view of adopting international standards for the financial sector, the Government will submit to Parliament a new banking law enhancing the bank resolution framework, and strengthening the governance of banks, the prudential supervision and the sanctions regime.

In particular, this banking law will also define the precise features and implementing modalities of a deposit guarantee scheme for banks in line with international standards.

TRADE POLICY

Action 8

In preparation of the launching of the negotiations of an Agreement on Conformity Assessment and Acceptance (ACAA) of industrial products between the EU and Tunisia, and consistent with Law 2009/38 on Standardisation of the Republic of Tunisia, the Government will advance substantially with the process of converting the existing system of industrial compulsory standards (*normes homologuées*) into a system aligned with that of the EU, based on compulsory technical regulations at sector level and voluntary product standards. In particular, this process will be completed for the two priority sectors that will be covered by the ACAA, namely, building materials and electrical and electronic products. The ministerial decrees implementing the new technical regulations will be published in the *Journal officiel de la République tunisienne*.

Action 9

In preparation of the launching of negotiations of an ACAA of industrial products between the EU and Tunisia, the Government will submit to Parliament legislation to align the institutional setting for market surveillance with the EU's New Legislative Framework.

adopted in 2008.² In particular, the Government will submit to Parliament the law on security of industrial products and the law on food security.

² Regulation 765/2008/EC on accreditation and market surveillance and Decision 768/2008/EC establishing a common framework for the marketing of products.

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)