# AFRICAN DEVELOPMENT BANK

**PROGRAMME : ECONOMIC RECOVERY AND SOCIAL INCLUSION SUPPORT PROGRAMME (PAREIS)**

**COUNTRY : REPUBLIC OF TUNISIA**
**APPRAISAL REPORT**

**7 June 2021**

| | | |
|---|---|---|
| Appraisal Team | Team Leaders:<br>Team Members: | **Team Leaders:** Mouhamed GUEYE, Chief Development Economist RDGN/AHHD.1<br>Jean-Philippe VION, Senior Governance Specialist, ECGF<br>**Team Members:**<br>Ismael. M. HOUSEIN, Principal Financial Sector Development Officer, RDGN.1<br>Audrey CHOUCHANE, Lead Economist,<br>Rafaa MAROUKI, Chief Agricultural Economist, RDGN.2<br>Olivier BRETECHE, Principal Country Programme Officer, Tunisia, RDGN.0<br>Rachidi KOTCHONI, Principal Country Economist, RDGW<br>Oussama BEN ABDELKARIM, Principal Education Economist, AHHD.1<br>Loubna BOURKANE, Youth Employment Officer, RDGN/AHHD<br>Ammar KESSAB, Principal Governance Expert, ECGF<br>Adama Moussa, Chief Renewable Energy Expert, COMA/RDGN<br>Belgacem BENSASSI, Chief Water and Sanitation Engineer, RDGN.2<br>Maimouna NDIAYE, Principal Transport Engineer, RDGN.1<br>Moumine SISSAO, Education Economist, RDGN/AHHD1<br>Ousmane FALL, Principal Environmental Safeguards Specialist, SNSC/RDGN<br>Bernadette DJAPA-NYANJO, Procurement Officer, SNFI.1/RDGN.4<br>Samuel Alain NNA-EBONO, Financial Management Coordinator SNFI.2, RDGN.4<br>Malick FALL, Regional Procurement Officer, SNFI.1/RDGN<br>Balgis Osman ELASHA, Chief Climate Change and Green Growth Specialist, PECG2/RDGN1<br>Egidia RUKUNDO, Principal Gender Specialist, AHGC1/RDGN4<br>Elsa LE GROUMELLEC, Principal Legal Counsel, GECL 1<br>Fulbert EGNILE, Chargé principale de décaissement, FIFC3 |
| | Vice-President | Toda ATSUKO, A.g. AHVP |
| | Director-General: | Mouhamed El AZIZI |
| | Deputy Director: | Maline BLOMBERG |
| | Sector Directors: | Martha PHIRI, Director AHHD<br>Abdoulaye COULIBALY, ECGL |
| | Division Managers: | HENDRINA C. DOROBA, Division Manager AHHD.1<br>Mohamed KALIF, Division Manager PIFD.1<br>Vincent CASTEL, Division Manager RDGN.2 |
| | Sect. Unit Head: | Tapera J. MUZIRA, Coordinator JFYA, AHHD |

| | |
|---|---|
| Peer Reviewers | Maimouna Diop LY, Chief Health and Social Protection Specialist, AHHD.2; Raymond BESONG, Chief Development Economist, RDGS; Kaouther ABDELRAHMANE, Egypt Country Economist, Alfred Regis OUEDRAOGO, Principal Social Development Expert, AHHD.2; RDGN; Carlos MOLLINEDO, Energy Policy Expert RDGN |

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**APPRAISAL REPORT**

**RDGN/AHHD/ECGF/PIFD**

June 2021

*Translated Document*

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## CURRENCY EQUIVALENTS

*(June 2021)*

| | |
|---|---|
| Currency Unit = | UA |
| UA 1 = | EUR 1.18 |
| UA 1 = | USD 1.44 |
| UA 1 = | TND 3.96 |

## FISCAL YEAR

1 January to 31 December

## ACRONYMS AND ABBREVIATIONS

| | |
|---|---|
| **ACM** | Microfinance Control Authority |
| **AfDB** | African Development Bank |
| **AMC** | Microcredit Association |
| **API** | Agency for the Promotion of Industry and Innovation |
| **ARP** | Assembly of the People's Representatives |
| **BL** | Budget Law |
| **CBT** | Central Bank of Tunisia |
| **CM** | Council of Ministers |
| **CNSS** | National Social Security Fund |
| **CRES** | Centre for Research and Social Studies |
| **DGPC** | Directorate-General of Highways |
| **EU** | European Union |
| **G2P** | Government-to-Person |
| **GDP** | gGross dDomestic pProduct |
| **ICSP** | Interim Country Strategy Paper |
| **IMF** | International Monetary Fund |
| **INS** | National Institute of Statistics |
| **ITCEQ** | Tunisian Institute of Competitiveness and Quantitative Studies |
| **JORT** | Official Gazette of the Republic of Tunisia |
| **KfW** | German Development Bank |
| **MARHP** | Ministry of Agriculture, Water Resources and Fisheries |
| **MAS** | Ministry of Social Affairs |
| **MEFAI** | Ministry of Economy, Finance, and Investment Support |
| **MENA** | Middle East and North Africa |
| **MFI** | Microfinance Institution |
| **MFPE** | Ministry of Vocational Training and Employment |
| **MSMEs** | Micro and medium-sized enterprises |
| **MTND** | Million Tunisian Dinars |
| **P2G** | Person-to-Government |
| **PAC** | Competitiveness Support Programme |
| **PAREIS** | Economic Recovery and Social Inclusion Support Programme |
| **PARISE** | Support Programme for CovidCOVID-19 Response through Social Inclusion and Employment |
| **PBO** | Programme-based operation |
| **PEE** | Public Enterprises and Establishments |
| **PEFA** | Public Expenditure and Financial Accountability Assessment |
| **SME** | Small and-medium-sized enterprises |
| **TFPs** | Technical and Financial Partners |
| **TND** | Tunisian Dinar |
| **UA** | Unit of Account |
| **UGTT** | Tunisian General Labour Union |
| **US** | United States |
| **UTICA** | Tunisian Confederation of Industry, Trade and Handicrafts |
| **WB** | World Bank |

## I. PROGRAMME INFORMATION

| | |
|---|---|
| **INSTRUMENT**: | Sector Budget Support |
| **PBO DESIGN TYPE**: | Economic Recovery Support |

## II. LOAN INFORMATION

Client's information

| | |
|---|---|
| **BORROWER:** | Republic of Tunisia |
| **EXECUTING AGENCY:** | Ministry of Economy, Finance and Investment Support |

**Financing Plan**

| **Source** | **Amount in EUR (2021)** | **Amount in EUR (2022)** | **Instrument** |
|---|---|---|---|
| AfDB | 60 million | To be determined | Loan |
| **WB** | To be determined | | |
| **AFD** | To be determined | | |
| **KFW** | To be determined | | |
| **JICA** | | | |
| | | | |
| **TOTAL COST** | **Millions** | | |

**AfDB Key Financing Information**

| | |
|---|---|
| Loan Currency: | Euros (EUR) |
| Loan Type: | Fully Flexible Loan |
| Tenor: | 25 years |
| Grace period: | 7 years |
| Weighted Average Maturity**: | 12.7 |
| Repayments: | Consecutive semi-annual payments after grace period |
| Interest Rate: | Base Rate +Funding Cost Margin+ Lending Margin + Maturity Premium<br>This Interest Rate will be floored to zero. |
| Base Rate: | Floating Base Rate (six-month EURIBOR to be reset on 1 February and 1 August). A free option is available to set the base rate |
| Funding Cost Margin: | Bank funding cost margin which resets on 1 January and 1 July and is applied to the base rate on 1 February and 1 August. |
| Lending Margin: | 80 basis points (0.8%) |
| Maturity Premium: | 0:<br>· 0% if weighted average maturity<= 12.75 years<br>· 0.10% if 12.75 years < weighted average maturity <= 15 years<br>· 0.20% if weighted average maturity > 15 years |
| Front-end Fee: | 0.25% of loan amount |

| | |
|---|---|
| Commitment Fee: | 0.25% per annum on the undisbursed loan amount, commencing 60 days following the date of signature of the Loan Agreement and payable on each interest payment date. |
| Base Rate Conversion Option*: | Besides the free option to fix the base rate, it is possible for the Borrower to revert to the floating rate or reset all or a portion of the disbursed loan amount.<br>Transaction fees shall be payable |
| Cap or Collar Rate Option*: | The Borrower will have the option to cap or collar the base rate for all or a portion of the disbursed loan amount.<br>Transaction fees shall be payable |
| Loan Currency Conversion Option*: | The Borrower will have the option to change the currency of all or a portion of the loan, whether disbursed or undisbursed, into another Bank loan currency.<br>Transaction fees shall be payable. |

## Timeframe – Main milestones (expected)

| | |
|---|---|
| Concept Note Approval | March 2021 |
| Appraisal | June 2021 |
| Negotiations | June 2021 |
| Programme Approval | July 2021 |
| Effectiveness | October 2021 |
| Disbursement | November 2021 |
| Supervision | February and July 2022 |
| Closing Date | December 2022 |
| Completion Report | June 2023 |

# EXECUTIVE SUMMARY

| | |
|---|---|
| *Programme overview* | **<u>Programme Name</u>**: Economic Recovery and Social Inclusion Support Programme (PARIES)<br>**<u>Expected Outputs</u>**: The programme's two main expected outputs are:<br><br>(i) **Improvement of the investment climate in order to accelerate economic recovery and strengthen macroeconomic stability**;<br>(ii) **Mitigation of the economic and social impacts of the COVID-19 pandemic** in order to improve social inclusion.<br><br><u>Overall implementation schedule</u>: Budget support for 2021-2022<br>**<u>PAREIS falls within the Bank's sustainable lending limit for Tunisia for 2021</u>**<br>**<u>Programme Cost</u>**: <u>EUR 60</u> million to be disbursed in a single tranche. |
| *Programme outcomes* | **By eliminating barriers to market access and by reducing the authorizations for operating economic activities and/or administrative authorisations for investments, PAREIS will contribute to a medium-term increase in the investment rate from 14% in 2019 to 16% in 2022, mainly through major efforts made to improve the investment climate**. Ad hoc assistance to affected businesses should help to reduce the number of temporary and permanent business closures. The number of businesses with access to the SOTUGAR guarantee mechanisms is expected to reach 4000 in 2022. On the social front, by end-2022, PAREIS will enable 2.3 million people to benefit from increased social transfers; 1.4 million microcredit applicants to have access to banking services; self-employed people impacted by the crisis and 227,000 employees, who could be laid off or placed on furlough, to protect their jobs or receive social assistance. The programme will also impact the **470,000 low-income households** (beneficiaries of discount health cards) and 260,000 poor families (beneficiaries of permanent cash transfers) plus an estimated **400,000 vulnerable families** affected by the health crisis that are not in the MAS database. |
| *Alignment with the Bank's priorities* | **The programme will operationalise the governance and private sector development sub-components of the Bank's Ten-Year Strategy (2013-2022) and the Bank's High-5 on 'improving quality of life for the people of Africa'.** It contributes to two other High-5s, namely 'Feed Africa (2016-2025)' and 'Industrialise Africa (2016-2025)'. It also supports Pillar I of the Bank's 'Jobs for Youth in Africa Strategy (2016-2025)' aimed at building regional capacities to increase job creation, and the Gender Strategy, 'Investing in African Women to Accelerate Inclusive Growth (2021-2025)'. The programme is in line with the Bank's Strategy for Economic Governance in Africa (SEGA), particularly sub-pillar 2.1 "Competitiveness, Investment and Business Climate" and sub-pillar 1.4 "Sustainable Performance of Public Enterprises". PAREIS is aligned with the following two pillars of the 2017-2019 CSP for Tunisia: (i) Industrialisation and value chain development; and (ii) Improving quality of life for the people of the priority regions. |
| *Needs Assessment and Rationale* | **The economic situation in Tunisia evolved from modest performance between 2014 and the outbreak of COVID-19 to severe deterioration caused by the pandemic**. Indeed, the pandemic has led to a reduction in foreign trade, a drop in investment and a collapse in tourism. As a result, the real growth rate was only 1% in 2019, down from 2.7% in 2018, due to the limited agricultural sector contribution to growth, the sluggishness of the industrial sector, and the slow implementation of priority structural reforms. Regarding public finance, the budget deficit amounted to 10.2% of GDP in 2020, a very sharp increase compared to 2019 (3.6%). As a result, the Tunisian public debt situation remains disturbing, with the debt stock rising from 72.5% of GDP in 2019 to 84.2% in 2020, due to additional financing needs generated in part by the COVID-19 crisis.<br>These imbalances have spawned severe social consequences (e.g., the temporary closure of 11.4% of businesses and the permanent closure of 10.4% of them, an increase in the unemployment rate from 14.9% in 2019 to 17.9%,) which call for a robust response in terms of donor support. The rationale for the proposed operation is the need to create fiscal space to finance essential development expenditure, implement reforms that will help maintain macroeconomic stability, increase the contribution of the agricultural and industrial sectors to GDP, unlock job creation, and improve economic and social inclusion. |

| | |
|---|---|
| *Harmonisation with TFPs* | The Bank's intervention under PAREIS is in keeping with Pillar IV relating to economic, social, financial and digital inclusion of the **Joint AFD-African Development Bank, World Bank-JICA-KfW Reform Support Programme (2020-2022).** It, therefore, complements the TFPs work while maintaining dialogue on critical issues such as: PE governance, modernisation and reform of the administration. The multi-donor programme comprises the following four pillars: Pillar 1: Transport and Energy Efficiency; Pillar 2: Public Enterprise Governance and Performance; Pillar 3: Public Administration Performance and Public Finance Management; and Pillar 4: Social Services, Digital Financial Services, Financial Inclusion and Stability. The programme was also prepared in close contact with the other TFPs, but also with the contribution of team members participating in the multi-donor programme supervision mission organized in Tunis in October 2020 and June 2020.<br>The programme is a continuation of the Bank's previous support and is intended to sustain the impact of the PARISE COVID-19 response programme rolled out in 2020. |
| *Bank's added value* | **The Bank's operation will, in the short term, help to maintain the social balances and safeguard employment and social inclusion in a crisis context and, in the long term, stimulate the revival of investments as well as job creation in urban and rural areas to accelerate emergence from the crisis.** PARISE will help to facilitate youth employment and provide better conditions for workers through an improved social protection system. In addition, specific measures intended to improve the investment climate in order to boost job creation will simplify procedures and remove barriers that are impeding investment and, consequently, job creation. Lastly, by promoting self-entrepreneur status and social and solidarity-based enterprises, PARISE will boost economic recovery and support the strengthening of social inclusion, issues to which the Government is strongly committed in order to mitigate the impacts of COVID 19. |
| *Contributions to gender equality and women's empowerment* | **Through its contribution to social cohesion, the project will ensure social transfers (access to medical care and other cash transfers) to vulnerable people.** In addition, the project is envisaging the provision of assistance to needy and vulnerable families, which will improve their living conditions. The social assistance recipients will also receive new digital health insurance cards. The improved investment climate will benefit women-headed businesses, mostly affected by the COVID-19 crisis through the financing of Phase II of the **Women's Entrepreneurship Support Programme**, **RAIDA II (RAIDET) that will, in time, create 8500 jobs with the objective of creating 600 entrepreneurial initiatives** per year, the SOTUGAR guarantee mechanism and the creation of an enabling socioeconomic environment. Adoption of the RAIDET programme will build women's innovation and ITC skills and open up promising new niches, which will strengthen their entrepreneurial skills in several domains. |
| *Policy dialogue and associated technical assistance* | **The employment of young graduates and women as well as the social inclusion of the most vulnerable groups constitute the focus of this dialogue, especially in this context of economic recovery.** The second pillar of the CSP for Tunisia that focuses on improving the quality of life for the people of the priority regions places employment and social inclusion among the top priorities for action. Policy dialogue is also conducted on these issues as part of closer coordination with the other partners. The Bank is also promoting employment and social inclusion in sector dialogue and for inter-ministerial coordination during portfolio reviews and for strategic technical assistance such as that linked to the ongoing preparation of Tunisia's new industrial strategy and assistance to the National Agency for Employment and Self-Employment (ANETI) on development of the social and solidarity-based economy. The Bank has also supported a study on the impact of COVID-19 on MSMEs. The Bank is also implementing the Souk Atanmia initiative, which provides direct support to entrepreneurs and the regional entrepreneurship platform. Moreover, in an effort to broaden the policy dialogue beyond economic governance and competitiveness issues, the Bank maintains ongoing dialogue on the main governance concern, namely public enterprises. Considering that public enterprises and establishments account for 9.5% of GDP, 4% of the employed population and nearly 12% of the wage bill, the reform of public enterprises is crucial to the improvement of governance in the country. Debt management dialogue is also high on the policy dialogue agenda. |

## Results Framework

| PROGRAMME RESULTS FRAMEWORK | | | | |
|---|---|---|---|---|
| **A. PROGRAMME INFORMATION** | | | | |
| **PROGRAMME NAME AND SAP CODE**: ECONOMIC RECOVERY AND SOCIAL INCLUSION SUPPORT PROGRAMME - PAREIS SAP CODE: P-TN-K00-018 | | | **COUNTRY/REGION**: TUNISIA/RDGN | |
| **PROGRAMME DEVELOPMENT OBJECTIVE**: Contribute to economic recovery by improving the investment climate, job protection and social inclusion | | | | |
| **ALIGNMENT INDICATOR(S):** (i) investment rate; (ii) Human Development Index (HDI); (iii) labour force participation rate; (iv) range of regional development index in Tunisia; (v) employment rate; and (vi) poverty rate | | | | |
| **B. RESULTS MATRIX** | | | | |
| **RESULTS CHAIN** | **UNITS OF MEASUREMENT** | **BASELINE** | **TARGET AT END OF PROGRAMME IN 2022** | **MEANS OF VERIFICATION** |
| **OUTCOME 1: INVESTMENT CLIMATE IMPROVED AND ECONOMIC RECOVERY ACCELERATED** | | | | |
| INDICATOR 1.1: Investment to GDP ratio | Percentage | 14% in 2019 | 16% in 2022 | MEFAI data |
| INDICATOR 1.2: Tunisia's Doing Business score | Percentage | 68.7% in 2019 | 71% in 2022 | MEFAI, Min. Industry data. |
| INDICATOR 1.3: Number of businesses with access to SOTUGAR guarantee mechanisms | Number | 1700 in 2020 | 4000 in 2022 | MEFAI Data |
| INDICATOR 1.4: Financial inclusion rate for adult population | Percentage | 36% in 2019 | 38% in 2022 | Annex to Budget Law |
| **OUTCOME 2: SOCIAL INCLUSION AND COHESION ARE STRENGTHENED** | | | | |
| INDICATOR 2.1: % increase in the number of permanent beneficiaries of cash transfers | Percentage | 8% in 2020 | At least 10% by end-2022 | MAS Annual Report |
| INDICATOR 2.2: Number of people receiving social transfers after the reforms (access to medical care and other cash transfers[1]) | Number | 2 million in 2020 | 2.3 million by end-2022 | CRES data |
| INDICATORS 2.3: Distribution rate of AMEN and LABES cards | Percentage | 20% in 2019 | 50% in 2022 | CNAM and AMEN database |
| **OUTPUT 1: BARRIERS TO INVESTMENT ARE LIFTED AND MORE JOBS CREATED** | | | | |
| INDICATOR 1.1: Approval of the list of business or administrative authorisations that will constitute the 'second list' for the elimination of business or administrative authorisations during a Council of Ministers. | Yes/No | No in 2020 | Yes in 2021 | JORT |
| INDICATOR 1.2: Adoption of the strategic note on the five-year development plan | Yes/No | No in 2020 | Yes in 2021 | Extract from minutes of the Restricted Ministerial Council |
| INDICATOR 1.3: Adoption of the RAIDA II programme, including innovations, ICTs and openness to promising niches | Yes/No | No in 2020 | Yes in 2021 | Extract from 2021 Budget Law |
| INDICATOR 1.4: Expansion of the activities of the Compensation Fund for Agricultural Damage caused by Natural Disasters (FIDAC) to tree-growing and market gardening | Yes/No | No in 2020 | Yes in 2022 | Copy of decree on annual compensation for victims of disasters |

[1] Permanent cash transfers facilitate access to basic social services such as education, while temporary transfers are granted on an ad hoc basis in a single annual instalment to mitigate the impacts of the COVID 19 pandemic.

| | | | | |
|---|---|---|---|---|
| **OUTPUT 2: ECONOMIC, FINANCIAL AND DIGITAL INCLUSION IS STRENGTHENED** | | | | |
| INDICATOR 2.1: Launching and subscription of CDC to Inkadh and Mourafik funds under the Aspire initiative for respective targets of TND 50 and 40 million | Number | 0 in 2020 | Yes in 2021 | Copies of CDC subscription forms for the Inkadh and Mourafik Funds. |
| INDICATOR 2.2: Joint memorandum applying the provisions of Article 3 of Law No. 2020-45 of 14 December easing the conditions for writing off bad bank debts | Yes/No | No in 2020 | Yes in 2021 | JORT |
| INDICATOR 2.3: Publication of MEFAI order determining the categories of insurance that MFI can market and authorising microfinance institutions to distribute micro-insurance products. | Yes/No | No in 2020 | Yes in 2021 | Copy of publication |
| INDICATOR 2.4: ACM credit registry developed | Yes/No | No in 2020 | Yes in 2021 | COPIL minutes |
| **OUTPUT 3: EXPANSION AND EFFICIENCY OF CASH TRANSFERS ACHIEVED** | | | | |
| INDICATOR 3.1: Number of low-income families benefiting from exceptional temporary financial assistance to cope with the effects of COVID 19. | Number | 770 000 in 2020 | 870,000 (at least 20% of which have women household heads) in 2021 | MAS database |
| INDICATOR 3.2: Number of needy families benefiting from exceptional temporary financial assistance to cope with the effects of COVID 19 | Number | 260,000 in 2020 | 265,000, (at least 50% of which have women household heads) in 2022 | MAS database |
| INDICATOR 3.3: Social survey implementation rate | % | 50% in 2020 | 60% in 2021 and 70% in 2022 | MAS Data |
| **OUTPUT 4: SOCIAL PROTECTION SYSTEM GOVERNANCE IS IMPROVED** | | | | |
| INDICATOR 4.1: Publication in JORT of the implementing decree defining the powers, composition and operating conditions of the Higher Social Development Council – CSDS | Yes/No | No in 2020 | Yes in 2021 | JORT |
| INDICATOR 4.2: Roll-out of the unique citizen identifier in priority programmes, in particular, social protection, taxation, education and justice | Yes/No | No in 2020 | Yes in 2022 | Progress report on IUT roll-out |

**REPORT AND RECOMMENDATIONS OF MANAGEMENT TO THE BOARD OF DIRECTORS ON A PROPOSAL TO AWARD A LOAN OF EUR 60 MILLION TO THE REPUBLIC OF TUNISIA TO FINANCE THE ECONOMIC RECOVERY AND SOCIAL INCLUSION SUPPORT PROGRAMME- PAREIS.**

# I. THE PROPOSAL

1.1. **Management submits the following report and recommendations on a proposal to award an AfDB loan of EUR 60 million, to the Republic of Tunisia to finance the Economic Recovery and Social Inclusion Support Programme - PAREIS.** This operation, which is the Bank's contribution to multi-donor budget support (2020-2022) for Tunisia, is intended to support post COVID-19 economic recovery while responding more efficiently to the social challenges exacerbated by the pandemic. The operation's two focus areas are: (i) acceleration of quick-impact reforms likely to speed up economic recovery and job protection; and (ii) social spending efficiency and efficacy through streamlining and better targeting of social assistance programmes.

1.2. **The social consequences of the pandemic (an increase in the unemployment rate to 17.4%[2] in 2020 compared to 14.9% in 2019) call for a strong response in terms of donor support**. Moreover, the economic (and ultimately social) consequences are also far-reaching, with an 8.8% contraction in GDP and a sharp drop in private investments. These two elements justify the Bank's action in support of investment promotion and economic recovery, in tandem with support for job creation and the marginalized segments of the population.

1.3. **This programme, which is the outcome of a coordinated approach between the main donors and the Government of Tunisia, will provide the country, which, like the other RMCs, is experiencing an unprecedented economic downturn, with the necessary resources to mitigate the socio-economic shocks of the crisis and begin economic recovery.** PAREIS will, therefore, contribute to the achievement of the development objective of the Joint AFD-African Development Bank, World Bank-JICA-KfW Reform Support Programme aimed at strengthening macroeconomic stability in the near-term and gradually controlling the fiscal balances, while contributing to an appropriate response to social demand, in the medium term. The reforms recommended by the programme (see Appendix II matrix) will, therefore, enable the country to consolidate the achievements of the Support Programme for the COVID-19 Response through Social Inclusion and Employment (PARISE) approved in 2020; implement a social policy aimed at supporting mechanisms for protecting the population from vulnerability; and generating fresh momentum that will stimulate growth, create jobs and wealth.

# II. COUNTRY CONTEXT

## 2.1 Political Situation and Governance Context

2.1.1. **Tunisia completed a successful political transition following the 2014 Revolution by establishing democratically elected institutions.** A new constitution was adopted on 27 January 2014, a new type of regime was adopted, the political class was renewed and the country's first Presidential election held by universal, free and democratic suffrage in November and December 2014. This progress consolidated the foundations of Tunisia's democracy. An independent candidate, won the Presidential election in the autumn of 2019. The legislative elections resulted in a fragmented parliament. The Head of Government appointed in September 2020, successfully formed a non-partisan government of technocrats. This

[2] Source: Data from the National Institute of Statistics (INS), 2020

Government exhibits a strong determination to build a broad consensus around structural reforms and economic urgency to stem the deterioration in public finances and revive the economy.

2.1.2. **Expanded national dialogue between all the country's driving forces remains a priority of Tunisia's political agenda**. Many political and trade union actors headed by the UGTT, the powerful trade union body, have called for broader dialogue in order to reach a compromise on the major long-term national strategic guidelines and take harmonised national economic decisions in order to galvanise public action and redefine Tunisia's development model.

2.1.3. **However, the quality of services provided by the Tunisian administration could be improved upon and shows a need for reforms**. While they remain operational overall compared to those of other countries, national services show modest results in terms of efficiency. Regarding quality of service, the 2019 edition of the Global Economic Forum's (GEF) Global Competitiveness Index gives Tunisia a medium ranking (57th) in terms of administrative requirements or public sector performance (63rd). The ongoing reforms to enhance the Administration's efficiency focus on reducing the number of documents required to legalise signatures and promoting the Administration's digitalisation. Tunisia's overall competitiveness score in 2019 was 56.4; i.e. +0.8 points higher than in 2018.

## 2.2 Recent Economic Trends, Macroeconomic and Fiscal Analysis

2.2.1. ***Tunisia experienced a deep recession in 2020, representing an estimated -8.8% of GDP due to the COVID-19 pandemic.*** The pandemic has caused a reduction in external trade, a drop in investments and the collapse of tourism. It should be noted that Tunisia has posted weak economic performances since 2014. Indeed, real growth was only 1.0% in 2019, relative to 2.7% in 2018 because of the agricultural sector's modest contribution to growth, a sluggish industrial sector and delays in implementing priority structural reforms. On the supply side, the services sector (dominated by tourism), a traditional growth driver, has been hard hit, contributing to a -7.1% drop in GDP in 2020. Only the agricultural sector made a positive contribution to GDP in 2020 (+0.5%). On the demand side, growth has traditionally been driven by private sector consumption which continues to effectively weather the crisis (+0.5%). However, the pandemic has resulted in a sharp drop in investments (-5.1%) and net exports (-4.2%). Growth is expected to rebound to 2% in 2021 and 3.9% in 2022, supported by the recovery of the European economies.

**Table 1: Key Macroeconomic Indicators**

| | 2019 | 2020 Estimate | 2021 Projection | 2022 Projection |
|---|---|---|---|---|
| Real GDP growth (%) | 0.9 | -8.8 | 2.0 | 3.9 |
| Real GDP growth per capita (%) | -0.1 | -9.8 | 1.0 | 3.0 |
| Inflation, (%, end of period) | 6.7- | 5.6 | 5.7 | 4.3 |
| Budget balance (% of GDP) | -3.6 | -10.1 | -8.6 | -8.0 |
| Total revenue (% of GDP) | 27.9 | 27.2 | 27.8 | 27.4 |
| Total expenditure | 31.5 | 37.3 | 36.4 | 35.4 |
| Public debt (% of GDP) | 72.5 | 84.4 | 91.0 | 93 |
| Current account deficit (% of GDP) | -8.4 | -6.8 | -4.1 | -3.6 |
| International reserves (import days) | 112- | 162- | --- | --- |

**Source**: AfDB Statistics Department; National Governments; IMF
**NB**: The 2019 and 2020 data has been revised since the launch of the *African Outlook 2021* report in March 2021. Debt ratio projections and international reserves data are from the IMF.

Source: African Development Bank, African Economic Outlook, 2021

2.2.2. **Inflation, estimated at 5.96%, is down relative to 2019 (6.7%) due to the downturn in domestic demand and falling energy prices.** Following the pandemic's outbreak, the Central Bank of Tunisia postponed loan repayments for businesses by 6 months from March 2020 and cut its key rate by 100 basis points to 6.75%. Inflation is expected to remain stable over the medium term.

2.2.3. **The fiscal deficit widened to 10.1% of GDP in 2020, which is quite high relative to 2019 (3.6%), due to the financial efforts made to combat the pandemic. Management of the pandemic has undermined the fiscal consolidation efforts initiated since 2018 under the IMF programme**. While government revenue fell slightly due to the contraction of economic activity (-0.7% of GDP), the authorities were forced to increase public expenditure (notably recurrent expenditure) by 9.3% of GDP to cope with the COVID-19 pandemic. In addition, Tunisia's total financing needs are projected to increase by 50% in 2021 (see Table 3). In the short term, efforts to reduce the deficit to pre-pandemic levels will therefore be hampered by central government funding requirements, which are expected to increase by about 70% in 2021. A few years of fiscal consolidation will thus be needed before deficits return to pre-pandemic levels.

2.2.4. The current account deficit improved slightly to 6.8% of GDP in 2020 compared to 8.4% in 2019, due to a sharper drop in imports (-18.7%) than in exports (-11.7%) and an increase in remittances from Tunisians living abroad. The current account deficit was mainly financed through loans and other borrowings from donors.

2.2.5. **Public debt rose from 72.3% of GDP in 2019 to 83.4% of GDP in 2020 because of financing needs created by the COVID-19 crisis**. Dominated by external debt (70% of total outstanding debt), the public debt stock practically doubled between 2010 and 2019, thus increasing the country's vulnerability to exogenous shocks (as it is expressed in foreign currency). The financial difficulties of public establishments and enterprises (PEE) constitute another burden on the State budget (due to transfers) and a potential debt distress risk in the medium term. On 23 February 2021, Moody's rating agency downgraded Tunisia's sovereign rating from B2 to B3 maintaining a negative outlook. Tunisia will, therefore, be facing less favourable conditions on the international financial markets. The latest IMF reviews indicate that Tunisian debt remains sustainable despite the growing pressures of debt distress risk factors.

2.2.6. **Tunisia's access to external financing will be vital to preserve fiscal and macroeconomic balances in 2021. Indeed, the Ministry of the Economy, Finance and Investment Support estimates Tunisia's financing needs at TND 20 billion in 2021 and TND 19.5 billion in 2022 (EUR 6.1 billion and EUR 5.9 billion respectively**). The country is considering a recourse to international capital markets to meet a significant portion of these needs. In a context where market conditions are less advantageous, a reduction in the share of concessional loans aggravate Tunisia's debt distress risk. In January 2021, Tunisian authorities held several consultation meetings with the IMF in order to agree on priority reforms to ensure rapid recovery and also preserve debt sustainability and the stability of the financial system.

2.2.7. **On 19 April 2021, the Head of Government submitted an official request to the Managing Director of the International Monetary Fund to begin a new phase of negotiations on a new reform programme**. From 3 to 8 May 2021, a Tunisian delegation travelled to Washington to present the reform programme to the IMF's top officials. Technical discussions are underway and Tunisian authorities hope to begin formal long-distance negotiations in the second half of July to agree on the broad lines of the new programme.

2.2.8. **Weaknesses persist in the improvement of public expenditure management, and in particular in the management of the civil service, which remains a budgetary, social and development challenge**. Between 2011 and 2020, public spending absorbed approximately 35% of the national wealth produced each year. The payment of civil service salaries alone accounts for 53% of the budget, according to the 2020 budget law, leaving little room for capital expenditure. As such, capital expenditure represents only 9.6% of total expenditure. Tunisia had 890,000 public employees in 2018, or 7.7% of the population.

2.2.9. Subject to recovery of the global and European economy in 2021 - Europe being the main client and investor in Tunisia - real GDP growth could rebound to about 2% in 2021 and 3.9% in 2022. Similarly, inflation is expected to continue declining to around 4.3% in 2022 due to a prudent monetary policy. The budget deficit is expected to reach 8.0% of GDP while the current account deficit is projected to reach 3.6% of GDP in 2022.

## 2.3 Economic Competitiveness

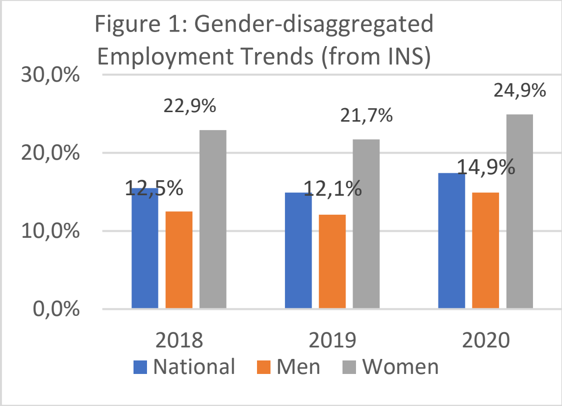
2.3.1. **Tunisia's industrial fabric has developed by benefiting from low labour costs and tax benefits for offshore companies**. This specialisation has resulted in the development of industries with unskilled labour on low wages. It has not encouraged innovation, improved positioning on the value chain scale or even increased the technological content of goods and services produced. However, the aeronautics, pharmaceutical, health and ICT sectors are contributing to the modernisation of the Tunisian economy. Agriculture, which generates almost 10% of GDP and export revenue, employs about 18% of the labour force and is a high potential, under-tapped sector of the Tunisian economy. Hence, its performance falls short of its full potential. Moreover, the weakness and volatility of agricultural production as well as financing constraints have not strengthened sector competitiveness.

2.3.2. **The main factors undermining Tunisia's economic competitiveness are linked to**: (i) the lack of skills within the labour force to address the needs arising from the policy to upgrade national industries; (ii) slow pace of innovation; (iii) the lack of cooperation with other Maghreb countries, which would foster the mutual development of their complementary strengths; and (iv) poor diversification of industrial markets and targeted value chains which are concentrated in Europe. Consequently, the country has failed to achieve the vertical growth of its installed industrial sub-sectors (automobile, aeronautics, textiles, tourism, etc.) which is necessary to improve its positioning in the global value chains. Moreover, the deteriorating logistics performance, in particular, in urban and maritime transport, has weakened business competitiveness. According to the Global Logistics Performance Index, Tunisia fell from 61st position in 2010 to 105th in 2018. This poor performance stems from pre-shipment delays which caused Tunisia to drop by 93 places over the same period. This coincides with a decline in the percentage of exporting companies from 38% in 2013 to 32% in 2019.

## 2.4 Inclusive Growth, Poverty Situation and Social Context

2.4.1**.** **Tunisia undoubtedly has significant social safety nets but its social welfare policy is still inadequate to effectively reduce poverty and promote social inclusion**. Despite the measures taken to support needy families and grant tax relief to businesses and households, the poverty rate remains high at 15.3% (INS, 2020). Mapping of the incidence of poverty in Tunisia, carried out in September 2020 by INS, reveals continuing wide disparities, depending on the area of residence, with a 26% poverty rate in rural areas compared to 6.3% in urban areas. The Central-West and North-West regions of the country are the hardest hit by the incidence of poverty. However, some pockets of poverty have been identified in the coastal areas such as Tebourba (15.2%), El Battane (14.5%) in Greater Tunis, Sedjnane (39.9%) and Djoumine (36.6%) in Bizerte Governorate. The Governorates of Kasserine, El Kef and Kairouan have the highest poverty rates. Kasserine has the three poorest delegations, namely: Hassi Frid (53.5%), Jedeliane (53.1%) and Al Ayoun (50.1%).

2.4.2. **The Tunisian economy lost 133,000 jobs in 2020 because of the health crisis (AfDB/IACE Survey, 2020).** Hence, 66% of these lost jobs concerned women and, in particular, the services sector (54%). The result was a 2.5% increase in unemployment, from 14.9% in 2019 to 17.4% in the 4th quarter of 2020. Wide disparities have also been observed, since unemployment has differing impacts on the youth, unskilled women and graduates who remain the most vulnerable workers on the labour market in priority regions. Almost half of all jobs (44.83%, or 1.6 million people in 2019) are informal and are very insecure. The COVID-19 crisis increased the share of informal employment from 44.83% in the third quarter of 2019 to 46.42% in the same quarter of 2020 (Graph 1). In absolute terms, informal employment increased by 41,500 jobs over the same period[3] (cf Technical Annex 6).




2.4.3. **According to a recent INS survey, on the demand side, almost 21.6% of businesses have been temporarily (11.4%) or permanently closed (10.4%).[4]** The risk of permanent closure is more acutely felt by microenterprises (70.3%) and SMEs (61.7%) than by large enterprises (47.8%). Microenterprises are 1.6 times more vulnerable in terms of safeguarding employment than SMEs. Some 8% of microenterprises have reduced their number of employees by 60% on average, while 5% of SMEs have reduced their job positions by 41% on average.[5] According to API data, there has been a very sharp drop in business start-ups and investments: - 44% between 2019 and 2020.

2.4.4. **While MSMEs are hardest hit by the crisis, they contributed 73% to job creation in 2019 and are faced with structural constraints.** Only 7% of MSMEs have access to financing and only account for 26% of financing applications submitted.[6] Their contribution to GDP growth is only 33%, reflecting their limited access to the local and international markets and to government contracts. Furthermore, entrepreneurial initiative is not sufficiently developed among higher education graduates since only 11% of them start up their own businesses. This labour market situation is due to the economic downturn, weak entrepreneurial culture and the current financial situation of companies. Young people's access to entrepreneurship is also restricted by cumbersome administrative and regulatory procedures, no access to financing and the market as well as weak coordination of entrepreneurship support initiatives.

2.4.5. **In Tunisia, the share of the agricultural sector in national employment has declined significantly despite a positive contribution to GDP.** Thus, in 2018, with an agricultural labour force estimated at 505,800, the sector only accounted for 18% of the total labour force. This decline in agricultural sector contribution to job creation stems from high rural-urban migration and internal migration movements between the hinterland and coastal regions (extensive regions with sometimes high emigration rates). The North-West and Central-West regions are known as regions with high concentrations of agricultural labour. Also, with 3.6 million people living in rural areas in Tunisia, the ratio of the rural population (% of the total population) almost halved over the 1960-2016 period (from 62.5% in 1960 to 31.4% in 2017). The sector's attractiveness and rejuvenation raises problems. Indeed, the rural community has lost its young people (recording the high migration of 18 to 35-year old youths to the towns and cities and illegal migration) and has resulted in the phenomenon of an ageing rural population, with a predominance of women and a shortage of young

[3] Study on the impact of COVID 19 on employment and MSMEs, Tunisia, AfDB/ILO 2021 (ongoing)
[4] IFC/INS survey, January 2021
[5] AfDB/IACE/Ministry of Industry Survey, July 2020
[6] According to the SME health check index, CYBG 2019

skilled agricultural labour. Based on diagnostic evidence, the government has become aware of the need to (i) improve the attractiveness of territories/land in order to achieve regional equity; and (ii) strengthen inclusion and promote sustainable natural resources management.

2.4.6. **Furthermore, the financial inclusion rate,[7] which only covered 38% of the adult population in 2020, is adversely affecting social and economic inclusion.** Recent efforts made by the authorities and the private sector have focused on certain types of micro-credit without meeting needs in the areas of micro-savings, insurance and means of payment. Moreover, different studies point to demand by 950,000 to 1.4 million individuals for micro-credit, including income-generating activities, but even higher demand of 2.5 to 3.5 million for a wider range of microfinance services, i.e. 30% to 40% of the adult population. Tunisia falls far behind some African countries in the area of mobile payments, despite a high number of mobile subscribers. Indeed, it is estimated that there are almost 15 million mobile telephone subscribers for a population of almost 11 million people, underscoring Tunisia's mobile payment potential. In 2018, only 19.4% of entrepreneurs financed their start-ups with bank financing. In fact, only 26% of microenterprises used banking services and, of this percentage, only 25.5% were successful in their efforts to obtain financial assistance.[8]

2.4.7. **According to the Africa Gender Index in 2019, despite outstanding progress in promoting the social dimension of gender equality (1.205/1), the focus on the economic sector is limited (0.630/1) while the empowerment and political representation dimension remains weak (0.315/1)**. In Tunisia, women are affected by gender inequalities in the economic and political spheres. Despite legal and constitutional measures against gender discrimination in the workplace, women continue to be most affected by unemployment. More seriously, unemployment affects many more female (63.7%) than male (22.7%) higher education graduates. Concerning access to productive resources, gender inequalities exist in access to land ownership and other property assets. Access to credit by women is limited due to a lack of collateral resources and technical expertise for the preparation of bankable projects. In Tunisia only 20% of businesses are established and managed by women.

## III. GOVERNMENT DEVELOPMENT AGENDA

### 3.1. Government Development Strategy and Reform Priorities

**Pending finalisation and adoption of the Five-Year Plan (2021-2025), the current Government is tackling two priorities, namely**: improve the public finance situation by controlling public expenditure and mobilising additional resources with donor support and taking all possible steps to support affected businesses and revive the economy. The following five urgent reform priorities have been announced: (i) modernisation and digitalisation of the administration and rehabilitation of public enterprises through recapitalisation and appropriate governance; (ii) rebuilding trust in order to boost investment, settlement of central government arrears owed to suppliers, no later than end-2021, and development of public-private partnerships; (iii) rehabilitation and maintenance of basic infrastructure: roads, motorways, ports, etc.; (iv) preservation of purchasing power by improving compensation targeting; and (v) greater attention to poor and vulnerable population segments that have been further hurt by the impact of the COVID-19 pandemic. The government's priorities for 2021-2025 are to: (i) boost the resilience of the Tunisian economy; (ii) implement a sustainable and ambitious economic recovery plan; (iii) take advantage of this crisis to accelerate the necessary transformation of the State and key segments of the Tunisian economy, and (iv) conduct a sustainable adjustment of public finances that yields a viable debt trajectory. The government, along with donors, has undertaken to improve the business and investment climate by streamlining administrative processes and digitalising administrative services while

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[7] 'Financial inclusion defines the possibility for natural or legal persons, ill or well-served, to gain access to a whole range of financial and non-financial products and services that adequately meet their needs, as proposed by a multitude of formal sector actors.'; page 27, National Strategy for Financial Inclusion in Tunisia 2018-2022.
[8] CONECT/UNDP, Miqyes Microenterprises Health Barometer -2018

consolidating public finance. To that end, structural reform programmes are under discussion with, as priorities, the overhaul of the compensation system, PE reform and management of the civil service wage bill.

### 3.2. Challenges to Implementing the National Development Programme

**Various constraints identified at the political, economic, social and institutional levels are slowing down the structural reform implementation schedule and have weakened the impact of the Government's strategy in Tunisia.** On the political front, polarisation of the landscape has made it difficult to reach a broad consensus on structural reforms and economic emergencies in order to stem the deterioration of public finances and revive the economy. Hence, from the economic standpoint, the Government must pursue its actions to gradually remove the barriers to public and private sector investment. On the social front, the efforts to improve the quality of public spending must be strengthened by improving governance of the social protection system and reducing vulnerabilities and inequalities with a view to increasing social inclusion. These two elements justify the Bank's action in support of investment promotion and economic recovery, in tandem with support for job creation and the marginalized segments of the population. At the institutional level, the civil service structural reforms and improvement of the financial situation of public enterprises remain two urgent priorities in terms of public finance consolidation (Cf. Technical Annex 5). Lastly, another priority and prerequisite for the implementation of the Government agenda is an efficient strategy for managing Tunisia's debt.

### 3.3. Consultation and Participation Processes

**PAREIS was the subject of national consultations.** Indeed, the appraisal of this budget support operation was enriched by close contacts between the Bank's sectors at the Tunis Regional Office and the various national administrations. These contributed to an in-depth knowledge of national sector policies and, in particular, complemented the measures of the joint matrix with those proposed by the sectors themselves that were fully consistent with the Bank's other previous and ongoing operations. National-level consultations involved civil society (CS) and national organizations (UGTT, UTICA and other civil society organisations).

## III. BANK SUPPORT TO GOVERNMENT STRATEGY

### 4.1. Linkage with the Bank's Strategy

**The programme will operationalise the governance and private sector development sub-components of the Bank's Ten-Year Strategy (2013-2022) and the Bank's fifth Hi-5 on 'improving quality of life for the people of Africa'.** It contributes to two other High-5s, namely: 'Feed Africa (2016-2025)' and 'Industrialise Africa (2016-2025)'. It also supports the first thrust of the Bank's 'Jobs for Youth in Africa Strategy (2016-2025)' aimed at building the capacities of regional member countries to increase job creation, and the Gender Strategy on 'Investing in African Women to Accelerate Inclusive Growth (2021-2025). The program is consistent with the Bank's Strategy for Economic Governance in Africa (SEGA), particularly sub-pillar 2.1 "Competitiveness, Investment and Business Climate" and sub-pillar 1.4 "Sustainable Performance of Public Enterprises". It is consistent with the following two pillars of the 2017-2019 CSP for Tunisia: (i) Industrialisation and value chain development; and (ii) Improving quality of life for the people in the priority regions.

### 4.2. Compliance with Eligibility Criteria

**Tunisia has already met the five budget support eligibility criteria by ensuring**: (i) macroeconomic stability strengthened by a programme currently being prepared with the IMF to consolidate public finance, reform the administration and reduce compensation pay-outs; (ii) political stability consolidated through the exceptionally successful democratic transition with presidential and legislative elections held in 2019; (iii) the existence of a framework for the interventions of technical and financial partners through, in particular, the G20 compact with Africa and the joint donor intervention in Tunisia is highly harmonised and ensures strong ownership of projects and programmes by the authorities themselves; (iv) a satisfactory fiduciary framework with a risk level considered to be moderate; and (v) a commitment to poverty reduction underpinned by reforms initiated in the social protection system and poverty reduction which is one of the new development models being prepared. Technical Annex 3 on the eligibility criteria provides details of the analysis.

## 4.3. Collaboration and Coordination with Other Partners

**There is a group of TFPs co-financing multi-donor budget support.** The AfDB, World Bank, the European Union, JICA, the French Development Agency and KfW regularly meet to review the programme's progress and ensure sector monitoring of ongoing structural reforms. The Bank's intervention under Pillar IV of the multilateral budget support relating to economic, social, financial and digital inclusion complements the TFPs' work while ensuring continuing dialogue on the following key issues: PE governance, modernisation and reform of the administration. The programme's preparation has benefited from close contacts with the other TFPs but also with the team members of the multi-donor supervision mission organized in Tunis from 5 to 16 October 2020. Contact has been maintained with the other TFPs through joint supervision missions and the selection of harmonised disbursement measures.

**Box 1: Scope of the Joint AFD-African Development Bank, World Bank- JICA-Kfw reform Support Programme**

The aim of this joint operation is to support the Tunisian government in the implementation of reforms needed to initiate post-COVID economic recovery and encourage it to redouble its efforts to reduce debt and ensure fiscal sustainability. It is structured around the following four pillars:

**Pillar 1: Transport and energy efficiency**

Improvement of the efficiency of sectors and areas that are crucial to the productivity of the whole economy (port and logistics, energy, digital payments).

**Pillar 2: Governance and performance of public enterprises**

Reform of the institutional framework for supervising and managing public establishments and enterprises in order to improve their financial transparency, strengthen accountability and bolster the financial situation of some public enterprises operating in key sectors.

**Pillar 3: Public administration and public finance management performance**

Modernise the civil service and improve public service transparency and efficiency at the local and central levels. Overall, improved public administration performance will build the population's trust in the State and its institutions. The targeted reforms will focus on improving human resources management, strengthening the independence of the administration, promoting the principles of accountability and empowerment, fostering meritocracy, bringing services closer to citizens and enhancing the quality of services provided to users.

**Pillar 4: Social protection, digital financial services, financial inclusion and stability**

Reform of the social protection system in order to improve transparency, equity and efficacy of social assistance programmes and expand their coverage. Speed up the roll-out of the unique citizen identifier (IUC) which is a key tool for checking the identity of citizens and improving interoperability between the different programmes and administrative databases. Improve access to, and the use of, an adapted and diversified range of financial services, including digital financial services. (see Additional Technical Annex C4 on the joint matrix).

## 4.4 Linkages with Other Bank Operations

4.4.1. **For several years, the Bank has implemented a series of operations on economic and financial governance and social inclusion**. These operations include: the Governance and Inclusive Development Support Programme (PAGDI) in 2011, the Project to support the Tunisian Institute of Competitiveness and Quantitative Studies (2010) and the Competitiveness Support Programme (PAC I & II) (1999 and 2001). The aforementioned operations were followed by: the Regional Development and Job Creation Support Programme (PADRCE - 2015) which improved the quality of human resources and built the implementation capacities of various services in the priority governorates; and the Inclusive Regional Development Support Programmes (PADRI I and II in 2016 and 2017) implemented on the basis of the Regional Development Diagnosis (carried out by the Bank in 2016) and which have supported the decentralisation and social inclusion process. By focusing on financial inclusion; providing appropriate financing services to young project developers, women and MSMEs; and reducing private sector production costs, the Financial Sector Modernisation Support Programme (PAMSFI) has consolidated the achievements of previous budget support programmes. Lastly, PAREIS is a continuation of PARISE approved in 2020 and which contributed to the rapid and targeted response to the health and socioeconomic impacts of COVID-19 by safeguarding jobs and improving social inclusion. It therefore strengthens Tunisia's country portfolio (cf Annex VI).

### 4.5 Studies Underpinning the Operation

**Programme design was informed by a series of studies conducted by the Bank, the most of important of which were**: (i) the sector note on employment and social protection in Tunisia prepared in 2020; (ii) the study on risk management and the establishment of an agricultural insurance system in Tunisia; (iii) report of the survey on COVID 19 impact on jobs and MSMEs; and (iv) the study on the "Contribution of the African Development Bank to Tunisia's New Development Strategy".

## IV. PROPOSED PROGRAMME

### 5.1. Programme Goal and Objective

**The goal of PAREIS is to contribute to economic recovery by improving the investment climate, job protection and social inclusion.** Its main objective is to support the Tunisian Government in its efforts to mitigate the economic and social impacts of COVID 19 by speeding up economic recovery, safeguarding jobs and strengthening social inclusion.

### 5.2. Programme Components

PAREIS comprises two complementary components: (i) **Support for economic recovery and the protection of jobs and businesses**; and (ii) **Support for the resilience of the social protection system and poverty prevention**.

#### 5.2.1. COMPONENT I: SUPPORT FOR ECONOMIC RECOVERY AND PROTECTION OF JOBS AND BUSINESSES

##### *5.2.1.1. Context, challenges*

**Improving the investment climate is a key challenge that must be addressed to ensure the post-COVID-19 recovery of the Tunisian economy**. In order to improve the competitiveness of the Tunisian economy, revive growth, and create jobs, the country must seek to unlock private sector potential. However, the growth of Tunisian businesses remains weak, whereas young and large businesses create the most jobs. MSMEs have been hardest hit by the crisis, partly due to the structural constraints they face. Entrepreneurial initiatives are taken more out of a need to ensure economic survival than to take advantage of opportunities. Moreover, the competitiveness barriers of these enterprises and the complexity of administrative procedures and authorisations are all constraints on investment. Surveys of business leaders reveal that administrative red-tape and lack of transparency in applying regulations are perceived as major constraints. This is shown clearly by the administrative procedures perception indicator: '*In fact, a company head or any senior management executive devotes 26.58% of his/her working time to carrying out administrative formalities and preparing the relevant files and documents. This rate would drop to 10.56% if all procedures were carried out online without any obligation to physically move about.'* ITCEQ, 2020.[9] Furthermore, the agricultural sector, which contributes 10% to GDP, accounts for almost 17% of employment and about 10% of export revenue, has remained under-exploited (cf. Technical Annex 8). In this context, the promotion of new technologies and the green economy are important niches for high quality job creation, especially for the youth and women.

**In addition, the banking system does not fully play its role in financing MSMEs and entrepreneurs because of a shortage of liquidity and a restrictive regulatory framework that limit opportunities for alternative financing of the economy through microfinance.** Access to inclusive financing is restricted by the inefficiency of some texts and inadequate information on customers. **Hence, the Government has adopted a series of innovative legal**

[9] Survey on the impacts of COVID-19 on Tunisian industrial SMEs, ITCEQ, 2020.

**measures aimed at improving the business climate and boosting employment**. In particular, these reforms have enabled Tunisia to gain 9 places in the Index of Economic Freedom (IEF) global ranking in 2021 from 128th position in 2020 to 119th in 2021 with a score of 0.8 points.

#### *5.2.1.2. Recent Measures adopted by the Government*

**The reform measures taken by the Government to deal with the effects of the pandemic and speed up recovery include:** (i) promulgation of the implementing decrees of crosscutting Law No. 2019-47 on improving the business climate; (ii) abolition of prior authorisations for investments in priority sectors; and (iii) the establishment of a digital platform for leveraging the benefits of the new investment code. These measures also included core reforms aimed at creating/safeguarding jobs and strengthening the entrepreneurial ecosystem, namely: (i) the Start-up Act; (ii) creation of the status of individual entrepreneur by the law on the social and solidarity economy (adopted in 2020); (iii) the law on crowdfunding; (iv) a rapid diagnosis of the agricultural and rural sector and preliminary guidelines to post-COVID recovery; and (v) adoption of the National Employment Strategy (SNE). All these initiatives converge towards the promotion of decent employment, entrepreneurship, social inclusion and cohesion.

Furthermore, the measures instituted in 2020 to support employees, individual entrepreneurs and businesses have provided assistance to: (i) **110,000 craftsmen and traders** with a tax registration whose activities have been affected by the crisis; and (ii) **391,698 employees at risk of being laid off** or placed on furlough, for the first tranche in April 2020 and 149,809 more for the second tranche in May 2021. In addition to the above, there has been: (i) the replenishment of FIDAC (Compensation Fund for Agricultural Damage caused by Natural Disasters) with **TND 30 million (Annual government allocation**); (ii) the establishment of the **bank credit guarantee mechanism for TND 300 million for affected sectors and businesses which leveraged TND 1.5 billion for 1847 businesses;** (iii) the award of supplementary credits at discounted interest rates to SMEs impacted by the crisis (TND 300 million.). In 2020, the Government, with the support of technical and financial partners designed an Anti-COVID Action Plan (PAAC) to support the agricultural and rural sector.

#### *5.2.1.3. Measures supported by PAREIS*

**To consolidate these achievements and mobilise the private sector in order to ensure that it fully plays its role in creating robust and inclusive growth, PAREIS is targeting**: (i) the removal of barriers to investment and acceleration of job creation; (ii) the establishment of a more inclusive Strategic Development Framework that is better tailored to private sector investment and employment; (iii) application of the law on individual entrepreneurship; (iv) the introduction of positive discrimination to promote innovative female entrepreneurship; (v) the mobilisation of funds for the CDC known as impact funds for microenterprises affected by the crisis.

**Accordingly, the following reform measures will be carried out** to boost competitiveness and eliminate barriers to market access: (i) approval of the list of business or administrative authorizations that will constitute the "second list" of business and/or administrative authorizations to be eliminated; (ii) adoption of the strategic policy note; (iii) preparation of methodological guidelines for the design of the 2021-2025 plan at the regional and sectoral levels; (iv) updating of the National Employment Strategy to factor in the implications of COVID 19 and adapt it to the orientations of the development plan under preparation; (v) adoption of the budgeted national action plan for the SNE; (vi) promulgation of the implementing decree for the list of activities eligible for the status of individual entrepreneur; (vii) development of the RAIDA II (RAIDET) programme, including innovation and ICT, as well as opening up to new niches; (viii) gradual extension of the Aspire Initiative for SMEs undergoing restructuring, launched by the CDC: launching and subscription of the CDC to the "Inkadh" and "Mourafik" funds under the Aspire Initiative for businesses with turnovers of TND 50 million and 40 million; (ix) signature of the memorandum of understanding between the BCT and the MTC on cooperation to facilitate the payments monitoring mission carried out by the BCT at the post office; (x) publication of the joint note pursuant to the provisions of Article 3 of Law No. 2020-45 of 14 December 2020 on the easing of the conditions for writing off bad bank debts; (xii) publication of a MEFAI decree defining the categories of insurance that MFIs can market and authorizing MFIs to distribute microinsurance products; (xiii) development of the risk registry to allow direct intervention by the ACM on the platform without the intermediation of the service provider and improve data sharing on microcredit associations; (xiv) mapping of government-to-person (G2P) payments that can be digitized; (xv) adoption of an incentive measure to stimulate the growth of mobile payments, involving a 20% rebate on the turnover of merchants made through digital payments (mobile/internet/PE) for the non-included population.

#### ***5.2.1.4. Component I – Main Expected Outcomes***

By opening up market access and simplifying authorisations to carry out economic activities and/or administrative authorisations to carry out projects, PAREIS will contribute to a medium-term increase in the investment rate from 14% in 2019 to 16% in 2022 mainly through major efforts made to improve the investment climate. Ad hoc assistance to affected businesses should help to reduce the number of temporary and permanent business closures. Thus, the number of businesses with access to the SOTUGAR guarantee mechanisms is expected to reach 4000 in 2022. This component is also expected, through the employment strategy, to implement effective employment policies and institutional reforms that will foster the creation of decent and rewarding jobs. It should also contribute to the development of the financial services platform of the post office and microfinance institutions thus improving access to banking services for communities excluded from the existing financial system.

### **5.2.2. COMPONENT II: SUPPORT FOR THE RESILIENCE OF THE SOCIAL PROTECTION SYSTEM AND POVERTY PREVENTION**

#### ***5.2.2.1. Context and Challenges***

**Tunisia has a social protection system covering a wide range of risks relating to illness, disability, old age, loss of family support, industrial accidents and poverty, which constitutes the first line of defence in managing the social impacts of the COVID-19 crisis**. There are two types of collective pension schemes in Tunisia: (i) a social insurance scheme funded through wage-based contributions (retirement and medical coverage); and (ii) a social assistance scheme whose financing is non-contributory and based on taxes and with no contributions required from beneficiaries who come from the poor and vulnerable categories. The central government also uses other types of social interventions: subsidies for staple goods, general energy product subsidies, sector assistance, transport and housing for certain categories of the population and other types of assistance included in different local or regional development programmes, support for job seekers, etc. (Cf Technical Annex 7).

**However, a significant segment of the population remains excluded from the basic social coverage which provides a guaranteed minimum income and access to affordable health care**. According to a study conducted by CRES entitled “Cost and Financing of the National Social Protection Mechanism” in 2021, about 10% of the population has no social health coverage, including the unemployed (3%) and other poor and vulnerable households not previously enrolled in the AMG. This highlights the importance of a Social Protection

Mechanism, towards which an important step forward was taken with the establishment of the ''AMEN SOCIAL[10]'' programme in January 2019 which is intended to, inter alia, secure the right to a minimum wage and health care services for the poor and low-income categories.

**Furthermore, public expenditure on social assistance has always been low compared to the subsidies granted (compensation system) to meet energy, basic product and transport needs**. The targeting inefficiencies observed in this system means that the most vulnerable segments of the population benefit less because of their low incomes and purchasing power compared to the well-off middle class. Also, the high cost of the compensation system which, on average, absorbs 10% of the budget leaves little leeway for the financing of essential social programmes (3.2% of GDP in 2017, WB/AfDB Public Expenditure Review – 2018). The import dependency ratio exceeds 70%, and food subsidies account for almost 2% of GDP, 5% of the State budget and 26% of the investment budget. Cereal subsidies account for at least two thirds of total CGC costs.

**The social protection system, therefore, requires major reforms in order to further protect the most vulnerable social categories, reduce poverty and improve social inclusion**. Public expenditure in the form of subsidies is estimated at TND 3.401 billion for 2021, or 2.8%[11] of GDP. The transition from a social assistance system dominated by subsidies to effective targeting of beneficiaries and products will enable the Government to make efficiency gains and create budget margins that will finance the expansion of social protection to poor and vulnerable households, which is why it is urgent to reform the system by shifting from subsidies to targeted social transfers.

#### *5.2.2.2. Recent Government Measures*

**In the short-term, the Government is working to finalise the social registry survey (ongoing, but delayed due to COVID-19 linked lockdowns) and implement targeting tools to improve the effectiveness and efficiency of social assistance expenditure.** In the medium-term, completion of the transformative project to establish a unique citizen identifier (IUC) should ensure the interoperability of public information systems for social programmes, optimise the targeting system and reduce inclusion and exclusion errors, thereby adequately meeting the demands of vulnerable and poor groups. The establishment of the IUC is supported by the Bank under the Digital Tunisia Programme. In particular, it will result in the establishment of an RIUC (SI-IUC) management information system, a platform that provides access to RIUC data for public sector organisations and a portal for citizens to consult and control their personal data.

**Under PARISE, the Government had initiated a series of exceptional and temporary social measures to assist families and vulnerable people impacted by the consequences of successive lockdown measures.** Adoption of the measure to provide exceptional monetary assistance to the poor and low-income segments of the population struggling with the negative effects of the COVID-19 crisis has left a significant impact on vulnerable groups. This assistance made it possible to grant in 2020: (i) additional exceptional monetary assistance of TND 50 to **262,000 families** benefiting from permanent financial assistance; (ii) TND 200 to **470,000 families** in the first tranche and 376,000 in the second tranche receive health care discount cards (AMGII) and **an additional 300,000 vulnerable families not initially enrolled**

[10] The beneficiaries of the ''AMEN SOCIAL'' programme are eligible for the following services: (i) monthly direct cash transfers; possible occasional support to meet unexpected financial difficulties or exceptional expenditure; (ii) health care, medical treatment, hospitalisation in public health facilities, equipment and prosthesis to facilitate integration, and rehabilitation services in compliance with existing legislation and prioritisation in social housing programmes, preferential measures under dedicated programmes and mechanisms for vocational training and employment, prioritisation in regional development programmes and social and solidarity economy programmes in conformity with existing regulations.

[11] Source: Draft State budget for 2021.

**in the MAS data base for needy and low-income families**; (iii) TND 200 for **779 families caring for the elderly,** the disabled or a child without any family support; and (iv) TND 100 for 140,000 holders of low retirement pensions. The initial target of 900,00 families has, therefore, been largely exceeded.

PARISE has also helped to start up the social assistance targeting and restructuring system, mainly through the adoption of the implementing decree to define the eligibility criteria and procedures of the Amen programme and AMEN Programme Scoring Model, and by accelerating implementation of the AMEN Social Programme which provides a lasting and structured response to the social shocks engendered by the COVID-19 crisis and strengthens economic integration and empowerment mechanisms, while expanding social coverage to the most vulnerable categories.

#### *5.2.2.3. Measures Supported by PAREIS*

**This second component aims to build the population's resilience by: (i) strengthening social protection for vulnerable categories; and (ii) improving social protection system governance to safeguard employment and reduce vulnerabilities**. It complements the first component by contributing to the streamlining of social assistance, thereby helping to control budgetary risks and mobilise resources for public investments and recovery. This component also consolidates the achievements of PARISE and is structured around two sub-components, namely: (i) **extension of social coverage** and (ii) **improvement of the social protection governance system.** The first sub-component aims to achieve targeted and rapid expansion of cash transfers and the preservation of jobs. The second sub-component aims to improve the efficacy of social programme service delivery through the interoperability of existing information systems and more effective coordination of social programmes with the gradual roll-out of the Unique Citizen Identifier (IUC), which will help to improve the targeting of social assistance recipients.

Thus, the following measures are supported in 2021: (i) the award of TND 180 in aid to poor families receiving permanent cash transfers and TND 300 to low-income categories to help them cope with the negative repercussions of the COVID-19 health crisis; (ii) launch of the distribution of new digital health cards (AMEN card) to social assistance recipients benefiting 260,000 poor families (with 20% having female household heads) and 470,000 low-income families, for a total of 3.3 million socially insured persons (LABES card); (iii) the award of TND 200 in compensation to employees of companies affected by the general lockdown in May 2021, individual entrepreneurs and their employees, workers in the tourism and handicrafts sector, and tourist guides (apart from this compensation, a bonus is paid to those who go for retraining given the pressures of COVID-19); (iv) expansion of the scope of the Fund for Compensation of Agricultural Damage Caused by Natural Disasters (FIDAC) to tree-farming activities; (v) establishment of an Ad-Hoc Committee on revision of the standard statutes of the six agricultural technical centres; (vi) adoption of the interoperability law; (vii) adoption of the implementing decree defining the powers, composition and operation of the Higher Social Development Council (CSDS) and operationalization of the digital identification of citizens in priority programmes, especially social protection, taxation, education and justice.

#### *5.2.2.4. Component II –Main Expected Outcomes*

The component aims to support at least one million poor and low-income families (i.e. 2.5 million persons by end-2021, with 60% being women from poor families and 20% being women from low-income families) to cope with the negative consequences of COVID-19. This entails the rapid and targeted expansion of cash transfers and exceptional assistance of TND 180 to poor families and TND 300 to limited-income categories. It will also support 270,000 workers in the tourism and handicrafts sectors and tourist guides adversely affected by the negative effects of the COVID-19 crisis while supporting social inclusion in rural and agricultural areas. PAREIS will also contribute to the interoperability of public information systems, launching of the distribution of AMEN (poor and low-income families) and LABES (for the socially insured) health care cards, and the establishment of the Higher Social Development Council, as well as the operationalisation of the Unique Citizen Identifier which will be effectively rolled out in priority programmes relating to social protection, taxation, education and the justice system.

### 5.3. Policy Dialogue

The Bank maintains sustained dialogue with the Tunisian Government on issues relating to social and territorial inclusion, regional and rural development and, above all, employment, which has been a cross-cutting theme in all projects since 2015 (see Technical Annexes C2 and C4). The employment of young graduates and women, as well as issues relating to the social inclusion of the most vulnerable groups are at the core of the dialogue, especially within the context of the current COVID-19 crisis. Pillar 2 of Tunisia's CSP, which focuses on improving quality of life for people in the priority regions, ranks employment and social inclusion among the top priorities for action. Furthermore, policy dialogue on these issues is conducted through enhanced coordination with other multilateral and bilateral partners. The Bank is also conducting voluntary dialogue on public enterprise reform. Indeed, the crisis in this sector has far-reaching consequences in terms of the State debt (budget transfers are estimated to reach 7% to 8% of GDP each year),[12] public service performance and public employment control. In this regard, the Bank has drawn the authorities' attention to the need for far-reaching reforms to ensure public debt sustainability, the continuity of efficient public services and an adequate volume of public employment. Finally, policy dialogue on these two issues is conducted in the context of enhanced coordination with other multilateral and bilateral partners, including through joint AFDB-KFW-JICA-AFD-WB budget support for 2020-2022.

### 5.4. Loan Conditions

**5.4.1. Measures Precedent:** Based on the dialogue with the government and in consultation with the other TFPs, implementation of the following measures crucial to the success of PAREIS is a condition precedent to presentation of the programme to the Banks' Board of Directors. All five measures have been implemented.

[12] IMF, Staff Report for the 2021 Article IV Consultation, February 2021, p. 9

**Table 2: Measures Precedent to Presentation of the Programme to the Bank's Board of Directors**

| Component | Measures Precedent |
|---|---|
| **COMPONENT I. SUPPORT FOR ECONOMIC RECOVERY AND THE PROTECTION OF JOBS AND BUSINESSES** | |
| **Measure 1** | Approval of the list of business and/or administrative authorisations which will constitute the "second list" of abolished business and/or administrative authorisations adopted at a meeting of the Council of Ministers.<br>**Proof of implementation**: Letter transmitting the second list of abolished business and/or administrative authorisations to the Presidency of the Government for approval by the Council of Ministers |
| **Measure 2** | Gradual expansion of the Aspire Initiative to SMEs under restructuring launched by CDC: launching and subscription of the CDC to the Inkadh and Mourafik funds under the Aspire initiative for respective targets of TND 50 million and TND 40 million<br>**Proof of implementation**: Copies of the forms indicating the CDC's subscription to the Inkadh and Mourafik funds and minutes of the investment committee of the Inkadh and/or Mourafik funds. |
| **Measure 3** | Adoption of the RAIDET programme to support women's entrepreneurship<br>**Proof of implementation**: Extract from the minutes of the CMR approving the guidelines of RAIDAT II (RAIDET) |
| **COMPONENT II. SUPPORT FOR THE RESILIENCE OF THE SOCIAL PROTECTION SYSTEM AND POVERTY PREVENTION** | |
| **Measure 4** | Granting of TND 200 to salaried corporate employees affected by the general lockdown measures of May 2021, individual entrepreneurs and their employees.<br>**Proof of implementation:** copies of the decree and four orders granting exceptional assistance to corporate employees and self-employed workers |
| **Measure 5** | Publication of the interoperability law in the JORT<br>**Proof of implementation**: Copy of the JORT publishing the Decree-Law on electronic exchanges between structures and users. |

## 5.5. Application of Best Practice Principles on Conditionality

**In designing PAREIS, and in line with Bank policy on programme-based operations (PBOs), the five best practice principles for the application of conditionality were followed, namely**: (i) national ownership in light of the commitment of the Tunisian Authorities and the participatory process underpinning the programme's preparation; (ii) coordination with other technical and financial partners, especially in defining the joint reform matrix and harmonising triggers; (iii) alignment of the Bank's support with the Government's national priorities; (iv) reduction in the number of indicators and conditions precedent to disbursement; and (v) alignment of the Bank's support with the country's budgetary cycle

## 5.6. Financing Needs and Arrangements

Tunisia will have to control its debt while grappling with its financing needs of approximately USD 7.2 billion (TND 20 billion) in 2021 and USD 7.2 billion (TND 19.5 billion) in 2022. Access to the concessional windows and innovative financing arrangements of multilateral partners will be essential to protect macroeconomic balances and relaunch medium-term growth.

**Table 3: Financing Gap**

| | 2018 | 2019 | 2020(e) | 2021(p) | 2022(p) |
|---|---|---|---|---|---|
| **Gross financing needs** | **6454** | **5795** | **5015** | **7498** | **7158** |
| Current account | 4443 | 3288 | 2697 | 4210 | 4396 |
| Central government | 747 | 1403 | 1342 | 2273 | 1944 |
| Central Bank | 540 | 385 | 177 | 83 | 132 |
| Businesses | 724 | 719 | 800 | 933 | 686 |
| **Gross financing sources** | **6454** | **5795** | **5015** | **7498** | **7158** |
| Foreign direct and portfolio investments (net) | 948 | 823 | 647 | 767 | 930 |
| Budget support | 977 | 1313 | 1160 | 1943 | 1626 |
| Financial markets | 571 | 773 | 0 | 1990 | 1070 |
| Others (including project borrowings) | 373 | 417 | 391 | 385 | 317 |
| Central Bank disbursements | 748 | 245 | 746 | 0 | 0 |
| Business disbursements | 732 | 761 | 427 | 704 | 740 |
| Short-term debts and capital | 2848 | 3001 | 3662 | 1122 | 1678 |
| Other flows | -1144 | 694 | -453 | -16 | -17 |
| Reserves | 402 | -2231 | -1565 | 603 | 813 |

Source: IMF, February 2021.

## V. IMPLEMENTATION OF THE OPERATION

### 6.1. Programme Beneficiaries

6.1.1. **The direct beneficiaries of the PAREIS programme will be 12 million inhabitants, self-employed workers impacted by the crisis, especially the lockdown of May 2021, and wage earners who could be laid off or placed on furlough, estimated at 227,000 persons**. More specifically, the programme will affect 1.4 million micro-credit applicants and the populations of the hinterland regions benefiting from improved basic infrastructure and access to social services. The programme will also impact the 470,000 low-income households (beneficiaries of discount health cards) and 260,000 poor families (beneficiaries of permanent cash transfers), plus an estimated 400,000 vulnerable families affected by the health crisis who are not registered in the MAS database. It will also impact farms and provide support to male and female farmers in the wake of natural disasters and will also help to mitigate the impact of the COVID crisis. The indirect beneficiaries are MSMEs, SMEs and national and foreign investors who will benefit from the improved business climate and quality of human capital.

### 6.2. Impact on Gender Issues and Vulnerable Groups

6.2.1. **PAREIS is classified in Category 2, based on the Gender Marker System.** By contributing to social inclusion and cohesion, the project will provide social transfers (access to medical care and other cash transfers) to vulnerable people, the majority of whom are women (70%). In addition, the project is envisaging the provision of assistance to needy and vulnerable families which will improve their living conditions. The recipients of social assistance will also receive new digital health insurance cards. The improved investment climate will benefit women-headed businesses, mostly affected by the COVID-19 crisis through the SOTUGAR guarantee mechanism and the creation of an enabling socioeconomic environment. Adoption of the RAIDA II programme will build women's innovation and ITC skills, which will consolidate their entrepreneurial skills in several areas.

#### 6.2.2. Vulnerable people

Under PAREIS the term 'vulnerable people' refers to persons with limited economic resources, whose situation affects their socio-economic living conditions and exposes them to absolute poverty. The COVID-19 crisis affects people of all social classes and categories differently but the consequences are felt more by fragile people. For example, the elderly who have no social security plan or family support, widows and single mothers without formal employment, the disabled, orphans, street children and people in conflict with the law. These categories of usually fragile people have been dramatically affected by the COVID-19 crisis and require special assistance. PAREIS will support them through social transfers which could facilitate their access to health care and meet their basic needs (cash transfers).

### 6.3. Impact on the Environment and Climate Change

6.3.1**. The activities targeted under this operation present environmental and social risks (E&S) which, based on the E&S risk classification criteria defined in the Bank's Integrated Safeguards System (ISS), are low.** The category 3 approved on 18 March 2021 for this operation is justified by the low E&S risks and the experience of the Borrower which has already satisfactorily implemented similar programmes and has adequate institutional capacity in the area of E&S risk management. Given the financing instruments used and the low E&S risks, no E&S impact assessment of the Programme is required. PAREIS aims to provide a rapid and targeted response to the health and socio-economic impacts of COVID-19 by safeguarding employment and improving social inclusion. PAREIS is a continuation of PARISE approved in 2020 (to be closed in December 2021). Even though Tunisia has a social coverage system which acts as a first line of defence in managing the social impacts of the COVID 19 crisis, a significant segment of the population remains excluded from this basic social coverage which provides a minimum level of guaranteed income and access to affordable health care. A series of exceptional and temporary social measures have been rolled-out to mitigate the impacts of successive lockdown measures. Terminating these measures could plunge families and vulnerable people into a precarious situation, which is why it is important to assess the new AMEN programme targeting system prior to its widespread use.

6.3.2. **Tunisia is considered to be one of the Mediterranean countries most exposed to climate change**.[13] The main risks likely to affect the country are rising temperatures, reduced rainfall, sea-level rise, and intensification of extreme weather phenomena such as droughts which appear to be more frequent. These risks have increasingly visible social and economic impacts and have an adverse effect on quality of life. The capacity building measures required to facilitate achievement of the INDC objective include stakeholder training, institutional development, technical assistance for sector mitigation programmes and support for R&D and innovation. The estimated total cost of meeting capacity building needs was about USD 523 million over the 2015-2030 period, most of which will be allocated to the energy sector (about USD 450 million). In addition, transfer of technology programmes will be necessary to provide Tunisia with access to know-how and appropriate industrial resources in order to ensure the sustainability of its contribution. Tunisia's vulnerability to climate variability is also linked to its dependency on agriculture and tourism. Therefore, pursuant to Article 45 of the new constitution, 'The State guarantees the right to a healthy and balanced environment and contributes to climate security.'

## 6.4. Implementation, Monitoring and Evaluation

**The monitoring-evaluation framework of PAREIS outcomes is based on the joint results matrix of reforms mutually agreed upon with the other TFPS and Tunisian Government.** Monitoring/evaluation will be conducted by MEFAI, which will be responsible for collecting and consolidating all data from sector departments that will regularly report on the progress of reforms, on which an annual report will be submitted. Supervision missions will be organised jointly with the other donors to review performance indicators and implementation of the reform agenda. The Bank will maintain close policy dialogue with the authorities and prepare a completion report at the end of the operation.

## 6.5. Fiduciary Risks, Financial Management, Disbursement and Procurement

**6.5.1. Country Fiduciary Risk Assessment. The Tunisian public finance management system allows for effective preparation and execution of the annual budget. It has an adequate internal control and expenditure audit system**. Multi-year budget planning has been consolidated since 2015 through the preparation of a development plan with a medium-term expenditure framework. The public finance system assessment has highlighted the priority areas for improvement, including: (i) the streamlining of internal control bodies; (ii) modernisation of the accounting system and its convergence towards international standards; (iii) improvement in account presentation times; and (iv) strengthening of external judicial review. **The comprehensive public finance management (PFM) reforms, initiated in the aftermath of the revolution, are based on the new Organic Budget Law (LOB) adopted on 31 January 2019** with the following objectives: (i) effective establishment of the new budget nomenclature; (ii) simplification of ex ante controls and strengthening of ex post controls; (iii) reform of public accounting in order to introduce double-entry accounting; (iii) expansion of

[13] Sendai Framework for Disaster Risk Reduction 2015-2030.

the role of the Court of Auditors to include certification of central government accounts; (iv) revision of the Public Accounting Code; and (v) adoption of the Organic Law on the Court of Auditors. In parallel to these reforms, the following operational support measures have been initiated: (i) the Financial Management Information System (FMIS) to ensure more effective integration of budget and accounting systems and compliance with the statutory time limit for the production of accounts; and (ii) improvement of the highly fragmented control bodies that have not adopted a systemic risk-based approach in compliance with international standards. This vast reform programme places Tunisia on a very positive pathway towards strengthening and modernising its public finance system. Actually, the fiduciary risk is deemed to be low.

**6.5.2. Disbursements and Financial Management.** Given the nature of the operation (budget support), the financial resources will be used in accordance with national public financial regulations. The entire public expenditure circuit will be used. Disbursement for each fiscal year must appear clearly in the budget review law for the year concerned. For 2021, disbursement will be made in a single tranche which will help to reduce the budget deficit for that fiscal year. At the Borrower's request, the Bank will disburse the proceeds of the loan in euros into a special account opened at the Central Bank of Tunisia in the name of the Programme. Once the deposit is made, the Borrower will ensure that the equivalent of the funds in local currency is transferred to a current account of the Treasury.

**6.5.3**. **Currency Exchange**: Tunisia has had two satisfactory exchange control Safeguard Assessments of the Central Bank by the IMF. The Central Bank is also audited annually and its audit report is disseminated to the public. An analysis of recent audit reports does not show any particular control weaknesses.

**6.5.4 External Audit**: The financial flows and performance in implementing the programme measures will be audited by the General Finance Control (CGF). The deadline for submission of the audit report on financial flows and performance by the CGF to the Bank will be six months following closure of the Programme.

**6.5.5 Procurements***:* In line with the Bank's commitments to harmonisation and alignment under the Paris Declaration on Aid Effectiveness and the Accra Agenda for Action and considering that **Bank financing is provided in the form of an AfDB sector budget support loan**, the resources made available by the Bank will be fungible with those of the Treasury and used for the country's current needs and procurements in accordance with the national procurement system (Decree No. 2014- 1039 of 13 March 2014). The issue of direct procurement does not, therefore, arise. Recent Bank assessments of the public procurement system in Tunisia (BPAR 2017 using the OECD-DAC methodology; update in 2020 of the procurement component of the fiduciary and system performance assessment) concluded that the existing system is of acceptable quality and that the risk level is moderate for the procurement component with some improvement measures described in Technical Annex 1. In addition, the information collected from a sample of public actors in the social protection and employment sectors reveals that there is no significant element relating to procurement which justifies any difference between the procurement component of the fiduciary risk assessment in the aforementioned sectors and the national situation (Technical Annex 1). Consequently, using the national procurement system will guarantee the efficient expenditure of resources through acceptable procurement procedures and an efficient and appropriate control mechanism.

## VII. LEGAL FRAMEWORK

### 7.1. Legal Instrument

The legal instrument used for the programme is a loan agreement between the Bank and the Republic of Tunisia.

### 7.2. Conditions Associated with the Bank's intervention

**7.2.1. Conditions precedent to presentation of the programme to the Board**: Presentation of the programme to the Board of Directors shall be subject to implementation, by the Republic of Tunisia and to the satisfaction of the Bank, of the measures precedent outlined in paragraph 5.4 of this report.

**7.2.2. Conditions precedent to effectiveness of the Loan Agreement**: The Loan Agreement shall become effective subject to fulfilment of the conditions stipulated in Section 12.01 of the Bank's General Conditions for Loan Agreements and Guarantee Agreements.

**7.2.3. Conditions precedent to disbursement of AfDB Loan resources for the first phase**: In addition to loan effectiveness pursuant to the provisions of Section 12.01 of the Bank's General Conditions for Loan Agreements and Guarantee Agreements, disbursement of the single loan tranche shall be subject to fulfilment of the following condition by the Borrower to the satisfaction of the Bank: Provide the Bank the details of the special Treasury account opened at the Central Bank of Tunisia to receive the loan resources:

### 7.3. Compliance with Bank Group Policies

**7.3.1.** ***The programme complies with the Bank Group's policies and Guidelines*** which include: (i) the Bank's guidelines and policies governing its budget support operations; (ii) the Banks guidelines and policies for crisis response budget support operations; (iii) the revised Bank Staff Guide to quality at entry standards and criteria for public sector operations. No waiver from these guidelines has been requested in this proposal.

## VIII RISK MANAGEMENT

The Table below summarises the programme's potential risks and mitigation measures.

| RISK CATEGORY | RISK DESCRIPTION | RATING | MITIGATION MEASURES | RISK MANAGEMENT |
|---|---|---|---|---|
| Economic | Global economic downturn due to the COVID-19 pandemic | Moderate | Continuing implementation of National COVID-19 Response Plans and structural reforms | MEFAI |
| Institutional | Delays in operationalising structural reforms | Moderate | Establishment of a performance management framework for the different structures involved in implementing economic and fiscal reforms and improved donor coordination | MEFAI and Sector Ministries |
| Economic and budgetary | Widening of the budget deficit which affects social expenditure | Substantial | Strengthening of resilience measures and improvement of social programme governance | MEFAI |
| Social and political | Increase in popular demonstrations due to rising social insecurity which could destabilise the economy | Moderate | Acceleration of reform implementation by prioritising those which have a rapid economic and social impact. | MEFAI AND MAS |

## IX RECOMMENDATION

**9.1** Management hereby recommends that the Board of Directors of the Bank should approve the award of an AfDB loan not exceeding EUR 60 million to the Republic of Tunisia to finance the Economic Recovery and Social Inclusion Support Plan (PAREIS) for the purposes and under the conditions stipulated in this report.

## APPENDIX I: LETTER OF DEVELOPMENT POLICY

**Republic of Tunisia**

**Ministry of the Economy, Finance and Investment Support**

**Mr. Akinwumi ADESINA**
**President of the African Development Bank Group**
**Immeuble du Centre de Commerce International d'Abidjan (CCIA)**
**Avenue Jean-Paul II**
**01 BP 1387**
**Abidjan 01, Cote d'Ivoire**

# Letter of Development Policy

***Mr. President,***

## I Country Context

**1.** Tunisia, like other developing countries, is grappling with the fallout of the unprecedented COVID-19 crisis as well as the challenges of economic transition, after achieving a successful political transition.

The challenge for Tunisia is twofold: firstly, to raise the resources needed to finance the economy; and, secondly, to continue the momentum of structural reforms with a view to raising its potential production levels and paving the way to sustained and inclusive growth.

**2.** In this regard, it should be recalled that Tunisia, with the support of its development partners, has spared no effort to address the socio-economic effects of the health crisis and preserve the resilience of the health sector, particularly after three successive waves of the coronavirus.

The Government's intervention focused on the introduction of a set of financial and fiscal support measures for the benefit of affected sectors, businesses in difficulty, small businesses and poor families, in addition to the additional expenses incurred to manage the pandemic.

Furthermore, Tunisia has opted for the strategic choice of immunisation, with a target of vaccinating 50% of its population. The strategy adopted is based on equitable access to free, effective, quality vaccines and the establishment of an evax.tn registration platform. Priority is given to persons over 60 years of age, health professionals, etc. It is also important to note that Tunisia has joined the Covax initiative to benefit from preferential access to vaccines.

**3.** Considering that the cyclical and structural dimensions are inseparable in the conduct and management of public affairs and given the need to consolidate the gains made in building this nascent democracy, the Government has shown a clear determination to limit the repercussions of the crisis in a context of uncertainty and growing international risks, while persevering on the path of economic and social reform in order to promote sustainable recovery and strengthen institutional, social and economic resilience.

The Government's priorities for 2021-2024 are to: (i) boost the resilience of the Tunisian economy; (ii) implement a sustainable and ambitious economic recovery plan; (iii) take advantage of this crisis to accelerate the necessary transformation of the State and key segments of the Tunisian economy; and (iv) conduct a sustainable adjustment of public finances that yields a viable debt trajectory.

***Continuation of efforts to combat corruption and consolidate good governance***

**4.** The year 2021 was characterized by the launch of the second broad national consultation on good governance and corruption control. The objective is to define the broad guidelines of an anti-corruption strategy for 2022-2026 by adopting a participatory and inclusive approach.

At the same time, the drive to combat money laundering and terrorism financing has been strengthened by the recent implementation of the “Hannibal” platform for monitoring physical currency flows under the supervision of the Tunisian Financial Analysis Commission (CTAF).

Moreover, it should be noted that the government's desire to strengthen the decentralization process has resulted in the launch of the functional mobility programme for public officials which benefits local government entities. This programme is implemented as part of the national decentralization support strategy in accordance with the provisions of the local government code.

***A More Attractive Business Climate***

**5.** The year 2020 was marked by the completion of investment governance as provided for in the investment law. Indeed, the establishment of the Tunisian Investment Fund is considered to be the last pillar of the new investment governance strategy.

This policy has been reinforced by the commitment to revise Decree No. 389-2017 on the simplification of conditions and procedures for granting benefits in order to facilitate access to state financial support.

At the same time, efforts have been focused on speeding up the adoption of terms of reference for the abolition or replacement of the 27 authorizations to be freed up pursuant to Decree No. 417.

In the same vein, and in order to improve the investment climate and reduce administrative bottlenecks, an electronic platform of the Tunisian Investment Authority reserved for investors was launched to propose six services to investors, namely: application for investment declaration, legal constitution, application for financial incentives, deposit of a national interest project, application for authorization and request for applications.

The Government’s commitment also related to the digitalisation of investor services as well as the implementation of an investment information system to ensure better interoperability between the structures responsible for investments.

This focus would be further refined in the action plan currently being developed, particularly regarding the functional and institutional convergence of the investment ecosystem.

***Promote greater social inclusion***

**6.** Completion of the establishment of the "data bank on poor and low-income families" and the development of a unique social identifier will be the cornerstone of the social promotion policy which is based on targeting the beneficiaries of government aid.

Regarding implementation of the *AMEN SOCIAL* programme, an implementing decree was published in May 2020 setting out the conditions and procedures for benefiting/withdrawing from or challenging the programme. On the same date, three ministerial orders were published to define the calculation formula and amount of direct cash transfers to poor categories benefiting from the programme; the eligible cases and the amounts of occasional financial support paid to poor and limited-income categories; and determination of the scoring formula.

Furthermore, the National Social Dialogue Council is examining a number of government decrees, including the decree on the establishment of the National Agency for Integration and Social Development, the decree on the establishment of the Higher Council for Social Development and the decree to revise the government decree on the old age and disability pension system.

## II Macroeconomic Framework

**7.** A provisional assessment of the impact of COVID-19 shows a historic decline in growth (-8.8%) in 2020. The budget deficit rose to 10.2% of GDP and the public debt ballooned to 84.2% in 2020. This exceptional situation generated additional financing needs for the State Budget and affected the debt situation.

For the year 2021, projections indicate a fresh outbreak of the pandemic and the appearance of new variants of the coronavirus particularly in a context of economic and social fragility. Macroeconomic forecasts are based on a partial recovery of economic activity with a growth target of 3.7% in 2021. Public finances would come under additional pressure due to unfavourable developments (oil price surge, impact of the pandemic, etc.). Financing needs are estimated at nearly TND 18,685 million in 2021.

### New Economic and Social Priorities and Reforms

**8.** The exceptional COVID-19 situation has accelerated certain trends observed in recent years, such as digitization of the economy under the Digital Tunisia 2020 strategy and the energy transition prompted by the magnitude of the structural deficit of the energy balance recorded for many years.

This trend will continue under strategic policies geared towards creating new levers of inclusive and sustainable growth. It should be noted that the overall objectives for the next period are to boost economic resilience and accelerate structural reforms.

9. The reform programme would be structured around the following main pillars:

- Strengthening of the regulatory and institutional framework for combating corruption and instituting a culture of good governance;
- Adoption of new sectoral strategies geared towards better integration of new technologies and value chains;
- Promotion of investment as the lever for robust economic recovery that creates more jobs; Tunisia enjoys an attractive business climate which is conducive to its positioning in the new context of relocation and redistribution of global supply chains;
- Acceleration of the energy transition by promoting renewable energy investment projects; Tunisia shows a clear willingness to move forward with implementation of the programme to generate electricity from renewable energy sources;
- Strengthening the digitalization of the economy in order to improve productivity and boost new job creation by investing in education and digital infrastructure;
- Promotion of human capital to ensure greater equity and social inclusion;
- Strengthening of the foundations of a green economy that is environmentally-friendly and adapted to climate change; the main objective is to build resilience to climate change, ensure natural resource sustainability, protect the vulnerable and ensure food security; and
- Better governance of local affairs and regional development.

## III Measures of the Economic Recovery and Social Inclusion Support Programme (PAREIS)

PAREIS is based on a programmatic logic to consolidate the objectives of the 2020 Support Programme for COVID-19 Response through Social Inclusion and Employment (PARISE), thus underpinning the efforts of the Tunisian Government to mitigate the economic and social impacts of COVID-19.

PAREIS seeks to contribute to post-COVID-19 economic recovery and support the social context through two levers, namely: (i) the acceleration of quick-impact reforms likely to speed up economic recovery and job preservation; and (ii) the improvement of social spending efficiency by directly targeting poor and vulnerable categories in the current crisis context which has directly affected them.

Hence, PAREIS is based on two complementary components, namely: support for economic recovery and the preservation of jobs and businesses; and support for the resilience of the social protection system and poverty prevention.

***Component I - Support for economic recovery and the preservation of jobs and businesses***

This component will include a first reform area that will improve the investment climate and increase the investment rate in the medium term by expanding access to the market and simplifying authorizations to operate a business and/or administrative authorizations to create a project.

This component should also enable a larger number of companies to access the guarantee mechanisms of SOTUGAR and refinancing facilities of BCT.

To meet these challenges, PAREIS will support the following measures: (i) the approval of the list of business or administrative authorizations which will constitute the "second list" of eliminated business and/or administrative authorizations; (ii) the adoption of the strategic development note with the inclusion of quantitative job creation objectives integrated into the national development strategy with a focus on priority sectors and regions; (iii) operationalisation of the law on self-employment; and (iv) the development and implementation of the RAIDA II programme including innovation and ICT, thus promoting women's inclusion and entrepreneurship.

The second reform area covered by this component seeks to promote economic, financial and digital inclusion by supporting access to financing for businesses affected by the pandemic.

In order to achieve these objectives, several reform measures were taken by the Government, including: (i) the gradual extension of the Aspire initiative launched by the *Caisse des Dépôts et Consignations* (CDC) for SMEs undergoing restructuring; (ii) the enhancement of the financial services platform of the Post Office through signature of a protocol to facilitate the monitoring of payments; (iii) easing of the conditions for writing off bad debts; and (iv) the diversification of micro-insurance products for micro-finance institutions.

***Component I - Support the resilience of health and social protection systems and poverty prevention.***

The measures covered under this component will focus on two aspects that help to address the challenges of social inclusion, namely: extending social coverage to vulnerable categories and improving the governance of the social protection system in order to preserve jobs and reduce poverty.

These pillars thus complement the first component by contributing to the streamlining of social assistance through a system of targeted transfers that facilitate the control of budgetary risks and the mobilization of resources to boost public investments and economic recovery.

It is important to note that this pillar greatly consolidates the achievements of the PARISE programme finalized in 2020 and which was also developed to boost social resilience.

The first pillar of this component aims to ensure a targeted and rapid expansion of cash transfers, the inclusion of poor families, and the preservation of jobs and labour in farming and rural areas.

Accordingly, PAREIS will support the following measures: (i) the award of TND 180 in aid to poor families receiving permanent cash transfers and TND 300 to low-income categories to help them cope with the negative effects of the COVID-19 health crisis; (ii) launch of the distribution of new digital health cards (AMEN card) to social assistance recipients benefitting 260,000 poor and 450,000 vulnerable people; (iii) the award of TND 200 in compensation to employees of companies affected by the general lockdown in May 2021, individual entrepreneurs and their employees, workers in the tourism and handicrafts sector, and tourist guides; (iv) expansion of the scope of the Fund for Compensation of Agricultural Damage Caused by Natural Disasters (FIDAC) to tree-farming and market-gardening activities; (v) establishment of an Ad-Hoc Committee on revision of the standard statutes of the six agricultural technical centres; and (vi) operationalization of index insurance for the compensation of affected grain farmers.

The second pillar of reforms under this component is aimed at improving the efficiency of social service delivery by ensuring the interoperability of existing information systems and better coordination of social programmes using data exchange and the gradual deployment of the Unique Citizen Identifier (UCI), which will help improve the targeting of social programme beneficiaries and streamline services to users.

In order to achieve these objectives, several actions were adopted namely: (i) publication of the Decree-Law on the electronic exchange of data between structures and their users and also among the structures concerned; (ii) adoption of the implementing decree on the powers, composition and operating procedures of the *Conseil Supérieur du Développement Social* (CSDS); (iii) establishment of a mechanism for improving coordination and data exchange on social programmes between the relevant departments; and (iv) operationalisation of digital identification of citizens in priority programmes, notably social protection, taxation, education and justice.

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Cognizant of the challenges in the prevailing economic and social context aggravated by COVID-19, the Government undertakes to deepen and accelerate the pace of the appropriate reforms needed to boost economic and social resilience and lay the foundation for recovery and for sustainable and inclusive growth. Accordingly, the Government is requesting for substantial technical and financial support from the African Development Bank to design these reforms and facilitate their implementation.

## ANNEX II: MATRIX OF REFORM MEASURES -PAREIS I

| OBJECTIVE | 2021 MEASURE | 2022 MEASURE | PROOF OF IMPLEMENTATION | EXPECTED IMPACT | RESPONSIBLE STRUCTURE |
|---|---|---|---|---|---|
| | **COMPONENT I. SUPPORT FOR ECONOMIC RECOVERY AND THE PROTECTION OF JOBS AND BUSINESSES** | | | | |
| ***1.1. IMPROVEMENT OF INVESTMENT CLIMATE TO SPEED UP ECONOMIC RECOVERY*** | | | | | |
| 1. Remove barriers to investment and speed up job creation | **Approval of the list of business and administrative authorisations which is the 'second list' of abolished business and/or administrative authorisations adopted at a meeting of the Council of Ministers.** | | 2021: Letter transmitting the second list of business and/or administrative authorisations to the Presidency of the Government for approval by the Council of Ministers | Opening up of market access and/or simplification of the business authorizations and/or administrative authorisations needed to initiate projects. | MEFAI /Sector Ministries/ Consultative bodies/ PG |
| 2. Make the Strategic Development Framework more inclusive and adapted to private sector investment and employment | A Strategic Guidance Note adopted by the Council of Ministers<br><br>Methodology Guides for the preparation of the 2021-2025 Plan at regional and sector levels | - | 2021: Extract from the minutes of the Select Inter-ministerial Council<br>2021: Copy of guides validated | Inclusion of quantitative job creation targets into the National Development Strategy highlighting the priority sectors and governorates | MEFAI |
| 3.. Operationalise the National Employment Strategy which makes employment one of the objectives of socio-economic and sector policies | Updating of the National Employment Strategy to factor in the implications of COVID-19 and adapt it to the strategic guidelines of the development plan being prepared<br><br>Adoption of Budgeted National Action Plan | Adoption of regional employment plans | 2021: Copy of SNE updated and the budgeted action plan<br><br>2022: Copy of national and regional action plans and copies of validation meeting minutes. | Implementation of effective employment policies and institutional reforms that will foster the creation of decent and rewarding jobs | MFPE/ Directorate-General of Employment Promotion (DGPE) |
| 4. Implement the law on individual entrepreneurship; | Promulgation of implementing decrees on the list of activities eligible | Establishment of a digital platform for individual entrepreneurs | 2021: Publication in JORT | Adoption of the status of individual entrepreneur by self-employed workers | Ministry of Youth, Sports and Professional Integration |

| OBJECTIVE | 2021 MEASURE | 2022 MEASURE | PROOF OF IMPLEMENTATION | EXPECTED IMPACT | RESPONSIBLE STRUCTURE |
|---|---|---|---|---|---|
| Development of private initiative through simplification of procedures, especially for informal sector workers | for the individual entrepreneurship status | | 2022: Copy of the platform link | Reduction of the informal employment rate | |
| 5. Introduce positive discrimination to promote innovative female entrepreneurship | **Adoption of the RAIDA II (RAIDET) programme to support female entrepreneurship** | Allocation of over TND 5 million to the RAIDA II budget line | 2021: **Extract from CMR approving RAIDA II strategic guidelines**<br>2022: Extract from 2022 Budget Law | Number of women entrepreneurs benefiting from this new programme including % in the technological innovation and ICT sectors | MFFES |
| ***1.2. SUPPORT FOR ECONOMIC, FINANCIAL AND DIGITAL INCLUSION*** | | | | | |
| 6. Facilitate access to an impact investment fund and a restructuring initiative for SMEs impacted by the crisis | **Gradual extension of the Aspire Initiative launched by the CDC for SMEs undergoing restructuring: Launching and subscription by CDC to the Inkadh and Mourafik funds under the Aspire initiative for businesses with respective amounts of TND 50 million and TND 40 million.**<br><br>Impact Fund for businesses with target sizes of TND 100 million, established for SMEs operating in the regions | | 2021: Copies of forms showing CDC subscription to the Inkadh and Mourafik funds<br><br>Minutes of the investment committees of the Inkadh or Mourafik funds.' | Reduce negative social effects of the COVID-19 epidemic on businesses (SMEs) | CDC |
| 7. Promote financial inclusion | The Governor of the Central Bank and the Minister of | Establishment of the postal bank as a vector of inclusive finance | 2021: Copy of the signed memorandum of understanding | Development of the platform for the supply of postal financial services. | Ministry of Communications Technology (MTC) |

| OBJECTIVE | 2021 MEASURE | 2022 MEASURE | PROOF OF IMPLEMENTATION | EXPECTED IMPACT | RESPONSIBLE STRUCTURE |
|---|---|---|---|---|---|
| and access to financing | Communication Technologies and Digital Transformation will sign a memorandum of understanding on cooperation to facilitate the CBT's monitoring of payments by postal services. | | 2022: Copy of the agreement in principle or legal text establishing the postal bank | Access to banking services by people excluded from existing financial services | The post office |
| | Publication of the joint memorandum applying the provisions of Article 3 of Law No. 2020-45 of 14 December easing the conditions for writing off bad bank debts | Publication of the joint memorandum applying the provisions of Article 3 of Law No. 2020-45 of 14 December 2020: amending finance law for 2020. | 2021: Extract from JORT on the joint memorandum applying the provisions of Article 3 of Law No. 2020-45 of 14 December 2020 | Easing of the conditions for writing off bad bank debts | Ministry of Economy, Finance and Investment Support |
| 08. Strengthen the micro-finance sector and facilitate MFI access to financial markets | Publication of MEFAI order determining the categories of insurance that MFI can market and authorising Microfinance Institutions to distribute micro-insurance products | | Publication in JORT of an Order determining the categories of micro-insurance | Strengthening financial inclusion through diversification and accessibility of micro-insurance products | Ministry of Economy, Finance and Investment Support |
| 09. Facilitate MFI access to a risk pooling system | Development of the 5th lot of the microfinance credit risk registry:<br>- Direct intervention by ACM on the platform to make corrections (identifier, guarantor…) without the intermediation of the service provider.<br>- Improvement of data shared on microcredit associations in the credit registry. | First quarter of 2022: works completion | First quarter of 2022: Note issued by ACM confirming completion of the work<br><br>First quarter of 2022: Minutes of COPIL meeting chaired by ACM validating the feedback from the work on the credit registry. | Lot 5 of credit registry is operational. | ACM |

| OBJECTIVE | 2021 MEASURE | 2022 MEASURE | PROOF OF IMPLEMENTATION | EXPECTED IMPACT | RESPONSIBLE STRUCTURE |
| --- | --- | --- | --- | --- | --- |
| 10. Speed up the development of affordable and secure digital payment transactions | Mapping of G2P payments which can be digitalised<br><br>Adoption of an incentive measure to boost the development of mobile payments based on a 20% discount on any turnover made by businesses through digital payments (Mobile/Internet/ microenterprises) (BL2022), for the population which is not included according to standard criteria | Signing of an agreement between the CBT and the National Telecommunications Authority (INT) to monitor digital payment services | 2021: Publication of the study on the mapping of G2P payments that can be made through mobile channels<br>2022: Copy of the agreement with INT in 2022 | Bulking of digital transactions | CBT+MEFAI/General Directorate of Fiscal Studies and Legislation |
| | **COMPONENT II. SUPPORT FOR THE RESILIENCE OF THE SOCIAL PROTECTION SYSTEM AND POVERTY PREVENTION** | | | | |
| **2.1. STRENGTHENING OF THE SOCIAL PROTECTION SYSTEM FOR VULNERABLE CATEGORIES** | | | | | |
| 11. Support poor and vulnerable categories in addressing the negative effects of COVID 19 | Granting of TND 180 as exceptional assistance to poor families benefiting from permanent cash transfers and TND 300 to low-income categories to cope with the negative effects of the COVID-19 pandemic | Gradual adoption of the targeting model for new subscribers to the AMEN programme | 2021: Copy of the ministerial order/decree on exceptional monetary transfers<br><br>2022: Monitoring report on the establishment of the targeting model | Mitigation of negative social impacts of the COVID-19 pandemic on poor and low-income categories. | MAS +MEFAI+ CRES |
| | Launching of the distribution of new digital health care cards for poor and low--income families | Data collection for the social survey will be completed for at least 60% of the target population registered in the AMEN Social | 2021: Copy of the agreement between MTC and the Post Office regarding the distribution of cards | Gradual extension of medical insurance cards to all AMEN programme beneficiaries<br>Finalisation of the database on poor and low-income | MAS and MTC |

| OBJECTIVE | 2021 MEASURE | 2022 MEASURE | PROOF OF IMPLEMENTATION | EXPECTED IMPACT | RESPONSIBLE STRUCTURE |
|---|---|---|---|---|---|
| | **(**470000 low-income vulnerable families +260 000 poor families (AMEN card) and for the socially insured (LABES card) | database compared to 50% at present | 2022: Status report on social survey | categories and progress status of social survey | |
| | Gradual roll-out of AMEN and LABES health-care cards based on SEED CNAM | | 2021: Copy of the MAS/CNAM agreement | Improved medical coverage | MAS and the Post Office |
| 12. Support businesses, individual entrepreneurs and their employees in addressing the negative effects of the COVID-19health crisis | **Granting of an allowance of TND 200 to employees of businesses affected by the general lockdown measures in May 2021, to individual entrepreneurs and their employees.** | | 2021: Copy of the Decree and four orders on exceptional assistance to company employees and individual entrepreneurs | Mitigation of negative social effects of the COVID-19 epidemic and total lockdown measures (9-16 May 2021) on businesses, individual entrepreneurs and their employees working in certain sectors. | MAS-MEFAI |
| 13. Support workers in the tourism and handicrafts sectors as well as tourist guides adversely affected by the negative repercussions of the COVID-19 crisis | Grant an allowance of TND 200 to workers in the tourism and handicrafts sectors as well as tourist guides (not exceeding 6 months).<br><br>In addition to the allowance there is a bonus for upgrade training in light of COVID-19 requirements. | | Copy of the Order issued by the Minister of Social Affairs and the Minister of Economy and Finance and Investment Support determining the terms and conditions for the allocation of the exceptional and temporary monthly allowance proposed in paragraph 5 of Article 32 of Law No. 2020-46 of 23 December 2020 relating to the 2021 Budget Law/ | Mitigation of the effects of the COVID-19 epidemic on workers in the tourism and handicraft sectors as well as tourist guides | MAS-MEFAI |

| OBJECTIVE | 2021 MEASURE | 2022 MEASURE | PROOF OF IMPLEMENTATION | EXPECTED IMPACT | RESPONSIBLE STRUCTURE |
|---|---|---|---|---|---|
| 14. Support social inclusion in rural and agricultural areas | Expansion of the activities of the Compensation Fund for Agricultural Damage caused by Natural Disasters (FIDAC) to tree-farming activities | Expansion of the activities of the Compensation Fund for Agricultural Damage caused by Natural Disasters (FIDAC) to market gardening. | 2021: Copy of the minutes of the FIDAC management Committee meeting 2021: Copy of the minutes of the FIDAC management Committee Meeting | Expansion of the activities of the Compensation Fund for Agricultural Damage caused by Natural Disasters (FIDAC) to tree-farming and market gardening activities. | MARHP MARHP |
| | | Launching of the index-insurance process to compensate affected cereal farmers (regulatory and operational framework established in consultation with the different stakeholders) | 2022: Framework note on the existing statutory and regulatory mechanism | Operationalisation of index insurance to compensate affected cereal farmers (regulatory and operational framework established in consultation with the various stakeholders) | |
| | Establishment of an Ad Hoc Committee to revise the standard statutes of 6 agricultural technical centres | Revision of the standard statutes of 6 agricultural technical centres (citrus fruit, dates, potatoes, organic farming, aquaculture, green-house and geothermal crops) to build their capacities | **2021:** Decision by the Minister establishing the Ad Hoc Committee<br><br>**2022:** Publication of the Decree on the standard statutes for these centres. | | MARHP |
| | **2.2. IMPROVEMENT OF SOCIAL PROTECTION SYSTEM GOVERNANCE** | | | | |
| 15. Improve the efficacy of the social programme service delivery through the interoperability of existing information systems and closer coordination of | **Publication of the Law on JORT interoperability** | Installation of the National Interoperability Operator (CNI unit) | 2021: Publication in JORT of the Decree-Law on electronic exchanges between structures and users, 2022: Text operationalising ONI | Improved targeting of social and social assistance programmes in general | Ministry of Communication Technology (MTC) |
| | Publication in JORT of the implementing decree on the responsibilities, composition and | Organisation of the first CSDS meeting | 2021: Copy of Decree on CSDS | Closer coordination between programmes | MAS, MEFAI |

| OBJECTIVE | 2021 MEASURE | 2022 MEASURE | PROOF OF IMPLEMENTATION | EXPECTED IMPACT | RESPONSIBLE STRUCTURE |
|---|---|---|---|---|---|
| social programmes | operating conditions of the *Higher Social Development Council – CSDS* | | 2022: Copy of the minutes of the meeting establishing CSDS | | |
| | | Establishment of a coordination mechanism between MAS, MEFAI and the Ministry of Education to improve the exchange of data on various social programmes | 2022: Copy of the roadmap | Closer inter-sector coordination in social programme management | MAS/MEFAI/ Ministry of Education |
| 16. Gradual roll-out of Unique Citizen Identifier (IUC) | Operationalisation of the Unique Citizen Identifier: the IUC will be effectively rolled out/ integrated into priority programmes in particular, social protection, taxation, education and justice | Establishment of the interoperability system | 2021: Activity report on the commissioning of the information system<br>2022: Report certifying the interoperability of the IS | Reduction of duplications and errors of exclusion and inclusion<br><br>More effective monitoring-evaluation of beneficiaries of social assistance and social programmes | Ministry of Communications Technology (MTC) |

## ANNEX III: NOTE ON RELATIONS WITH THE IMF

PRESS RELEASE

PR21/52

**IMF Executive Board Concludes 2021 Article IV Consultation with Tunisia**
FOR IMMEDIATE RELEASE

Washington, DC – February 26, 2021: The Executive Board of the International Monetary Fund (IMF) concluded the Article IV[14] consultation1 with Tunisia.

The COVID-19 pandemic hit Tunisia hard and led to an unprecedented economic downturn. Real GDP is estimated to have contracted by 8.2 percent in 2020, the largest economic downturn since the country's independence. The unemployment rate jumped to 16.2 percent at end-September, disproportionally affecting low-skilled workers, women, and youth, and fueling social discontent. Inflation slowed because of the contraction in domestic demand and lower international fuel prices. The current account deficit narrowed to 6.8 percent of GDP, driven by lower import demand and resilient remittances, despite a strong hit on exports and collapsing tourism receipts.

The fiscal deficit and public debt increased sharply in 2020. The fiscal deficit (excluding grants) is estimated to have reached 11.5 percent of GDP. Revenue dropped because of a lower tax intake. Additional hiring (about 40 percent of which was in the health sector, including to combat COVID-19) pushed the civil service salary bill to 17.6 percent of GDP, among the highest in the world. Higher outlays were offset by lower investment spending and energy subsidies. As a result of the increase in the fiscal deficit and contraction in GDP, central government debt is estimated to have increased to nearly 87 percent of GDP.

GDP growth is projected to rebound to 3.8 percent in 2021, as the effects of the pandemic start to wane. However, there are considerable downside risks around this projection, given the uncertainty from the duration and intensity of the pandemic and the timing of the vaccination. The medium-term outlook depends critically on the future path of fiscal policy and structural and governance reforms.

700 19th Street NW
Washington, DC 20431
USA

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Executive Board Assessment[15]

[14] Under Article IV of the IMF's Articles of Agreement, the IMF holds bilateral discussions with members, usually every year. A staff team visits the country, collects economic and financial information, and discusses with officials the country's economic developments and policies. On return to headquarters, the staff prepares a report, which forms the basis for discussion by the Executive Board.

[15] At the conclusion of the discussion, the Managing Director, as Chairman of the Board, summarizes the views of Executive Directors, and this summary is transmitted to the country's authorities. An explanation of any qualifiers used in summings up can be found here: http://www.IMF.org/external/np/sec/misc/qualifiers.htm.

Executive Directors agreed with the thrust of the staff appraisal. They noted that the COVID19 crisis is exacerbating Tunisia's socio-economic fragilities. They commended the authorities' policy response to the crisis. Directors noted that while growth is expected to recover modestly in 2021, downside risks dominate. They agreed that the immediate priority is to save lives and livelihoods and stabilize the economy until the pandemic wanes. Economic policy should also focus on restoring fiscal and debt sustainability and promoting inclusive growth.

Directors recommended that fiscal policy and reforms should aim to reduce the fiscal deficit. In this context, they underscored the need to lower the wage bill and limit energy subsidies while prioritizing health and investment expenditure and protecting targeted social spending. Directors noted that Tunisia's public debt would become unsustainable, unless a strong and credible reform program were adopted with broad support. They also called on the authorities to make taxation more equitable and growth-friendly and encouraged action to clear the accumulated arrears of the social security system.

Directors emphasized that broad ranging reform of state-owned enterprises (SOEs) is necessary to reduce contingent liabilities. They encouraged the authorities to adopt a plan to reduce fiscal and financial risks of SOEs, strengthen corporate governance, and improve financial reporting and transparency.

Directors stressed that monetary policy should focus on inflation by steering short-term interest rates, while preserving exchange rate flexibility. They urged the authorities to avoid monetary financing of the budget. Directors advised the authorities to implement the roadmap to inflation targeting and prepare a gradual and conditions-based plan for capital account liberalization, while closely monitoring financial sector soundness.

Directors underscored that promoting private sector activity is key to increasing potential growth and making it more job-rich and inclusive. Reform efforts should focus on lifting monopolies, removing regulatory hurdles, and improving the business environment. They welcomed the efforts to increase financial inclusion and leverage digital technologies. Directors emphasized that strengthening governance is important and called for effective implementation of anti-corruption and AML/CFT regimes. They also emphasized that COVID-related expenditures should be effective and transparent. Directors welcomed the objective to invest in renewable energy to combat climate change.

It is expected that the next Article IV consultation with Tunisia will be held on the standard 12-month cycle.

## Table 1. Tunisia: Selected Economic Indicators, 2017–20

| | |
|---|---|
| Population (2019): 11.8 million | Per-capita GDP (2020, US$): 3,323 |
| Quota (2020): SDR 545.2 million | Literacy rate (2019): 82.3 percent (est.) |
| Main exports: electronic and mechanical goods, textiles, energy, olive oil, tourism | Poverty rate (2015): 15.2 percent |
| Key export markets: France, Italy, Germany | |

| | 2017 | 2018 | 2019 | 2020 |
|---|---|---|---|---|
| | | | | Prel. |
| **Economic activity** | | | | |
| Real GDP growth (percent) | 1.9 | 2.7 | 1.0 | -8.2 |
| Unemployment (end of period, percent) | 15.5 | 15.5 | 14.9 | … |
| Inflation (average, percent) | 5.3 | 7.3 | 6.7 | 5.7 |
| **Central government finances (percent of GDP)** | | | | |
| Total revenue (incl. grants, percent of GDP) | 24.6 | 26.0 | 27.7 | 26.9 |
| Total expenditure and net lending (percent of GDP) | 30.6 | 30.5 | 31.6 | 37.5 |
| Overall balance (incl. grants, percent of GDP) | -6.0 | -4.5 | -3.9 | -10.6 |
| Gross central government debt (percent of GDP) | 70.9 | 77.5 | 71.8 | 87.6 |
| **Money and credit** | | | | |
| Broad money (percent change) | 11.4 | 6.6 | 10.1 | 11.8 |
| Credit to the private sector (percent change) | 12.7 | 9.3 | 3.6 | 6.8 |
| **Balance of payments** | | | | |
| Current account (percent of GDP) | -10.3 | -11.1 | -8.4 | -6.8 |
| Foreign direct investment (percent of GDP) | 2.0 | 2.5 | 2.1 | 1.6 |
| Reserve coverage (months of next year's imports of GNFS) | 2.6 | 2.5 | 4.3 | 4.1 |
| External debt (percent of GDP) | 84.6 | 97.4 | 92.8 | 94.7 |
| **Exchange rate** | | | | |
| REER (end of period, percent change, "-": depreciation) | -10.9 | -7.7 | 10.7 | … |

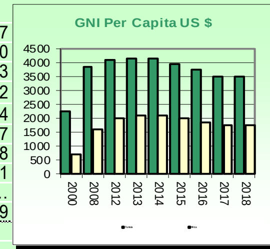
Sources: Tunisian authorities, IMF staff estimates and projections, and World Bank Development Indicators.

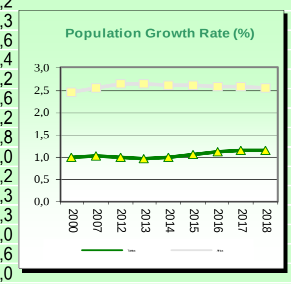
# APPENDIX IV: COUNTRY'S COMPARATIVE SOCIO-ECONOMIC INDICATORS

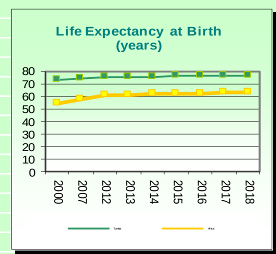
## Tunisia

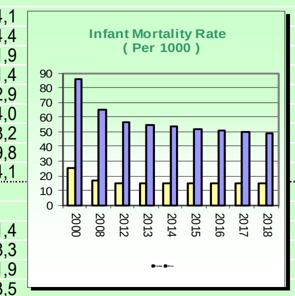
### COMPARATIVE SOCIO-ECONOMIC INDICATORS

| | Year | Tunisia | North Africa | Africa | Develo-ping Countries |
|---|---|---|---|---|---|
| **Basic Indicators** | | | | | |
| Area ( '000 Km²) | 2019 | 155 | 6 784 | 30 067 | 94 797 |
| Total Population (millions) | 2019 | 11,7 | 202,9 | 1 306,3 | 6 384,0 |
| Urban Population (% of Total) | 2019 | 69,8 | 55,9 | 43,3 | 50,3 |
| Population Density (per Km²) | 2019 | 75,3 | 30,0 | 44,5 | 69,2 |
| GNI per Capita (US $) | 2018 | 3 500 | 3 243 | 1 783 | 4 844 |
| Labor Force Participation *- Total (%) | 2019 | 46,1 | 45,2 | 63,2 | 60,7 |
| Labor Force Participation **- Female (%) | 2019 | 23,8 | 21,0 | 54,6 | 45,8 |
| Sex Ratio (per 100 female) | 2019 | 98,3 | 101,2 | 99,8 | 107,1 |
| Human Develop. Index (Rank among 189 countries) | 2018 | 91 | ... | ... | ... |
| Popul. Living Below $ 1.90 a Day (% of Population) | 2007-18 | 0,2 | 2,0 | 35,6 | 11,9 |
| **Demographic Indicators** | | | | | |
| Population Growth Rate - Total (%) | 2019 | 1,1 | 1,8 | 2,7 | 1,2 |
| Population Growth Rate - Urban (%) | 2019 | 1,5 | 2,1 | 3,6 | 2,3 |
| Population < 15 years (%) | 2019 | 24,2 | 31,3 | 40,6 | 27,6 |
| Population 15-24 years (%) | 2019 | 13,9 | 16,0 | 19,3 | 16,4 |
| Population >= 65 years (%) | 2019 | 8,6 | 6,0 | 3,5 | 7,2 |
| Dependency Ratio (%) | 2019 | 48,9 | 59,5 | 78,7 | 54,6 |
| Female Population 15-49 years (% of total population) | 2019 | 25,8 | 25,3 | 24,2 | 25,2 |
| Life Expectancy at Birth - Total (years) | 2019 | 76,7 | 74,0 | 63,5 | 70,8 |
| Life Expectancy at Birth - Female (years) | 2019 | 78,7 | 75,9 | 65,3 | 73,0 |
| Crude Birth Rate (per 1,000) | 2019 | 17,1 | 23,4 | 33,0 | 20,2 |
| Crude Death Rate (per 1,000) | 2019 | 6,3 | 5,5 | 8,0 | 7,3 |
| Infant Mortality Rate (per 1,000) | 2018 | 14,6 | 19,3 | 48,7 | 31,3 |
| Child Mortality Rate (per 1,000) | 2018 | 17,0 | 23,0 | 70,2 | 42,0 |
| Total Fertility Rate (per woman) | 2019 | 2,2 | 3,0 | 4,4 | 2,6 |
| Maternal Mortality Rate (per 100,000) | 2017 | 43,0 | 76,1 | 432,3 | 230,0 |
| Women Using Contraception (%) | 2019 | 67,0 | 62,2 | 39,1 | 61,7 |
| **Health & Nutrition Indicators** | | | | | |
| Physicians (per 100,000 people) | 2010-18 | 130,3 | 87,2 | 33,4 | 121,8 |
| Nurses and midwives (per 100,000 people) | 2010-18 | 251,4 | 192,0 | 107,8 | 240,8 |
| Births attended by Trained Health Personnel (%) | 2010-17 | 73,6 | 88,7 | 61,7 | 78,5 |
| Peop. Using at least basic drinking water services (% of Po | 2017 | 96,3 | 94,9 | 66,3 | 87,7 |
| Peop. Using at least basic sanitation services (% of Populati | 2017 | 90,9 | 90,8 | 40,3 | 68,5 |
| Percent. of Adults (aged 15-49) Living with HIV/AIDS | 2018 | 0,1 | 0,1 | 3,4 | ... |
| Incidence of Tuberculosis (per 100,000) | 2018 | 35,0 | 43,9 | 202,3 | 154,0 |
| Child Immunization Against Tuberculosis (%) | 2018 | 92,0 | 96,3 | 81,4 | 84,9 |
| Child Immunization Against Measles (%) | 2018 | 96,0 | 91,4 | 76,1 | 85,2 |
| Underweight Children (% of children under 5 years) | 2010-17 | 2,3 | 5,8 | 17,5 | 14,5 |
| Prevalence of stunding | 2010-17 | 10,1 | 18,4 | 34,0 | 23,6 |
| Prevalence of undernourishment (% of pop.) | 2017 | 4,3 | 4,3 | 18,5 | 12,3 |
| Current health expenditure (% of GDP) | 2016 | 7,0 | 5,5 | 5,3 | 5,4 |
| **Education Indicators** | | | | | |
| Gross Enrolment Ratio (%) | | | | | |
| Primary School - Total | 2010-19 | 115,4 | 108,6 | 100,1 | 104,1 |
| Primary School - Female | 2010-19 | 114,9 | 107,9 | 98,0 | 104,4 |
| Secondary School - Total | 2010-19 | 92,9 | 87,9 | 52,6 | 71,9 |
| Secondary School - Female | 2010-19 | 99,3 | 87,7 | 50,4 | 71,4 |
| Primary School Female Teaching Staff (% of Total) | 2010-18 | 64,0 | 63,8 | 48,6 | 62,9 |
| Adult literacy Rate - Total (%) | 2010-18 | 79,0 | 74,2 | 66,9 | 84,0 |
| Adult literacy Rate - Male (%) | 2010-18 | 86,1 | 81,6 | 70,8 | 88,2 |
| Adult literacy Rate - Female (%) | 2010-18 | 72,2 | 67,5 | 60,0 | 79,8 |
| Gouvernment expenditure on Education (% of GDP) | 2010-17 | 6,6 | 4,2 | 4,3 | 4,1 |
| **Environmental Indicators** | | | | | |
| Land Use (Arable Land as % of Total Land Area) | 2016 | 18,7 | 3,5 | 8,0 | 11,4 |
| Agricultural Land (as % of land area) | 2016 | 64,8 | 20,8 | 38,2 | 38,3 |
| Forest (As % of Land Area) | 2016 | 6,8 | 1,4 | 13,2 | 31,9 |
| Per Capita CO2 Emissions (metric tons) | 2014 | 2,6 | 2,7 | 1,2 | 3,5 |




*Sources : AfDB Statistics Department Databases; World Bank: World Development Indicators;* *last update :* *April 2020*
*UNAIDS; UNSD; WHO, UNICEF, UNDP; Country Reports.*
*Note : n.a. : Not Applicable ; ... : Data Not Available. * Labor force participation rate, total (% of total population ages 15+)*
*** Labor force participation rate, female (% of female population ages 15+)*

## ANNEX V: ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE

**ENVIRONMENTAL AND SOCIAL COMPLIANCE NOTE (ESCON)**

AFRICAN DEVELOPPEMENT BANK GROUP

**A. Basic Information**[1]

| | | |
|---|---|---|
| **Project Title**: Budget support for economic recovery and social inclusion Phase 1 (PAREIS-I) | | **Project "SAP code"**: P-TN-K00-018 |
| **Country**: Tunisia | **Lending Instrument**[2]: DI ☐ FI ☐ CL ☐ BS ☒ GU ☐ RPA ☐ EF ☐ RBF ☐ | |
| **Project Sector**: Social | | **Task Team Leader**: Mouhamed GUEYE |
| **Appraisal date**: From 07/06/2021 to 11/06/2021 | | **Estimated Approval Date**: 14/07/2021 |
| **Environmental Safeguards Officer**: Ousmane FALL | | |
| **Social Safeguards Officer**: XXX | | |
| **Environmental and Social Category**: 3 | **Date of categorization**: 18/03/2021 | **Operation type**: SO ☐ NSO ☐ PBO ☒ |
| **Is this project processed under rapid responses to crises and emergencies?** | | Yes ☐ No ☒ |
| **Is this project processed under a waiver to the Integrated Safeguards System?** | | Yes ☐ No ☒ |

**B. Disclosure and Compliance Monitoring**

**B.1 Mandatory disclosure**

| | |
|---|---|
| **Environmental Assessment/Audit/System/Others (specify): ……………………)** | |
| Was/Were the document (s) disclosed ***prior to appraisal?*** | Yes ☐ No ☐ NA ☒ |
| Date of "in-country" disclosure by the borrower/client | [Date] |
| Date of receipt, by the Bank, of the authorization to disclose | [Date] |
| Date of disclosure by the Bank | [Date] |
| **Resettlement Action Plan/Framework/Others (specify: ………………………………)** | |
| Was/Were the document (s) disclosed ***prior to appraisal?*** | Yes ☐ No ☐ NA ☒ |
| Date of "in-country" disclosure by the borrower/client | [Date] |
| Date of receipt, by the Bank, of the authorization to disclose | [Date] |
| Date of disclosure by the Bank | [Date] |
| **Vulnerable Peoples Plan/Framework/Others (specify): ……………………………)** | |
| Was the document disclosed ***prior to appraisal?*** | Yes ☐ No ☐ NA ☒ |
| Date of "in-country" disclosure by the borrower/client | [Date] |
| Date of receipt, by the Bank, of the authorization to disclose | [Date] |
| Date of disclosure by the Bank | [Date] |
| **If in-country disclosure of any of the above documents is not expected, as per the country's legislation, please explain why: NA.** | |

**B.2. Compliance monitoring indicators**

| | |
|---|---|
| Have satisfactory calendar, budget and clear institutional responsibilities been prepared for the implementation of measures related to safeguard policies? | Yes ☒ No ☐ NA ☐ |
| Have costs related to environmental and social measures, including for the running of the grievance redress mechanism, been included in the project cost? | Yes ☒ No ☐ NA ☐ |
| Is the total amount for the full implementation for the Resettlement of affected people, **as integrated in the project costs, *effectively mobilized and secured***? | Yes ☐ No ☐ NA ☒ |
| Does the Monitoring and Evaluation system of the project include the monitoring of safeguard impacts and measures related to safeguard policies? | Yes ☒ No ☐ NA ☐ |
| Have satisfactory implementation arrangements been agreed with the borrower and the same been adequately reflected in the project legal documents? | Yes ☒ No ☐ NA ☐ |

**C. Clearance**

Is the project compliant to the Bank's environmental and social safeguards requirements, and to be submitted to the Board? Yes ☒ No ☐

| ***Prepared by:*** | ***Name*** | ***Signature*** | ***Date*** |
|---|---|---|---|
| Environmental Safeguards Officer: | Ousmane FALL | | 23/06/2021 |
| Social Safeguards Officer: | XXXX | | |
| Task Team Leader: | Mouhamed GUEYE | | 23/06/2021 |
| ***Submitted by:*** | | | |
| Sector Director AHHD (OIC): | Bolaninde OMILOLA | | 28/06/2021 |
| ***Cleared by:*** | | | |
| Director SNSC: | Maman-Sani ISSA | | 28/06/2021 |

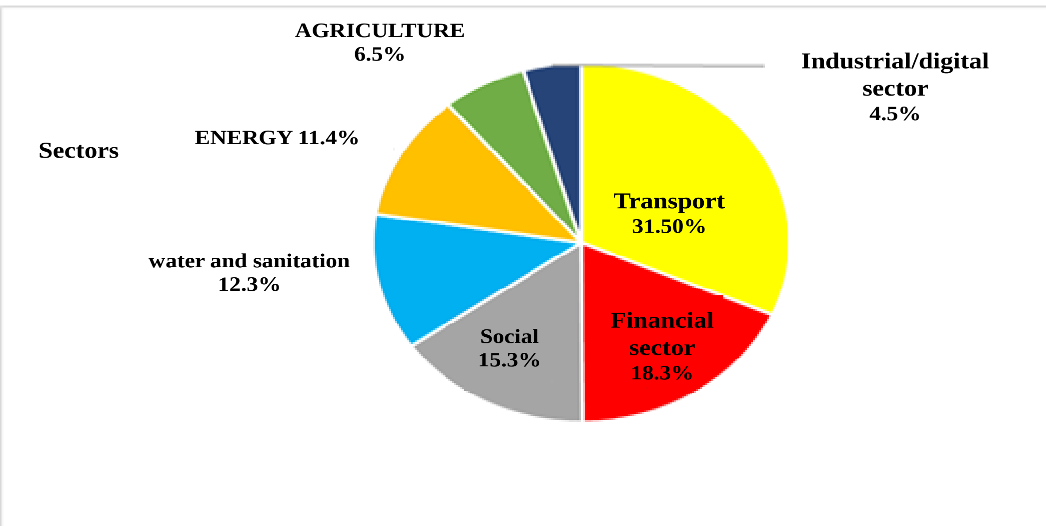
[1] **Note**: *This ESCON shall be appended to project appraisal reports/documents before Senior Management and/or Board approvals.*

[2] **DI**=Direct Investment; **FI**=Financial Intermediary; **CL**=Corporate Loan; **BS**=Budget Support; **GU**=Guarantee; **RPA**=Risk Purchase Agreement; **EF**=Equity Financing; **RBF**=Results Based Financing.

## ANNEX VI: COUNTRY PORTFOLIO SUMMARY

***The Bank's active portfolio in Tunisia comprises 41 projects representing net commitments of about EUR 1.64 billion (i.e. UA 1.38 billion)***. The portfolio covers seven sectors of intervention, namely: transport (31.5%), the financial sector (18.3%), social sector (15.3%), water and sanitation (12.3%), energy (11.4%), agriculture (6.5%), the industrial/digital sector (4.5%), and multisector operations (0,2%). The transport sector dominates (31.5% of commitments), although it has declined relative to other sectors (in particular, the social sector since 2020) and despite the high concentration of operations in infrastructure (almost 95% of commitments).

***Public sector loans (sovereign operations) amount to EUR 1.62 billion (UA 1.37 billion or 99.4% of the total), i.e. 21 projects and programmes representing an average amount of EUR 85.3 million (UA 72 million).*** The portfolio also includes 18 technical assistance operations, comprising 8 funded with MIC-TAF resources (EUR 4.15 million), 2 with TFT resources (EUR 2.9 million), 4 with the MENA Transition Fund resources (EUR 4.53 million) and 2 operations financed with KOAFEC resources (EUR 1.23 million) and under the African Water Facility (EUR 1.345 million), the RWSSI fund (EUR 1 million) and a FAPA grant of EUR 0.75 million.




Overall performance in the implementation of the Bank's portfolio, as assessed by operations supervision missions up to end-2020 in Tunisia appears to be satisfactory overall and the performance score remains 3.3 out of 4. The portfolio's overall disbursement rate is 49.7%. RDGN carries out close portfolio monitoring in order to further reduce the number of projects flagged in the April 2021 monthly Flagship Report to 35% of the project portfolio.

The main challenges are the continuation of efforts to shorten the average time needed to fulfil the conditions precedent to first disbursement for new projects, the timely submission of audit reports, recurrent delays in procurement procedures and the preparation of quarterly progress reports.