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Special Report

EU Assistance to Tunisia

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(pursuant to Article 287(4), second subparagraph, TFEU)

Audit team

02

The ECA's special reports set out the results of its performance and compliance audits of specific budgetary areas or management topics. The ECA selects and designs these audit tasks to be of maximum impact by considering the risks to performance or compliance, the level of income or spending involved, forthcoming developments and political and public interest.

This performance audit was produced by Chamber III of the ECA, which is responsible for the audit of the external actions' and security and justice spending areas. Mr Karel Pinxten, Dean of this Chamber, is the reporting Member. He was supported in the preparation of the report by the Head of his office, Gerard Madden; Alejandro Ballester Gallardo, Principal audit manager; Nikolaos Zompolas, Head of task; Thomas Haellstrom, Erika Soveges and Nicola Berloco, Auditors.

From left to right: Karel Pinxten, Alejandro Ballester Gallardo, Nikolaos Zompolas, Gerard Madden, Erika Soveges, Nicola Berloco, Thomas Haellstrom.

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Acronyms and abbreviations

ADB: African Development Bank

AFD: Agence Française de Développement

BSP: Budget Support Programmes

CRIS: Common Relex Information System

DAC: Development Assistance Committee (of the Organisation of Economic: Cooperation and Development)

EBRD: European Bank for Reconstruction and Development

EEAS: European External Action Service

EIB: European Investment Bank

ENI: European Neighbourhood Instrument

ENPI: European Neighbourhood and Partnership Instrument

EUD: European Union Delegation

IMF: International Monetary Fund

MFA: Macro-Financial Assistance

NIF: Neighbourhood Investment Facility

NIP: National Indicative Programme

PAR: Programme d'Appui à la Relance

PEFA: Public Expenditure and Financial Accountability

SPRING: Support for Partnership, Reforms and Inclusive gGrowth

SBC: State Building Contracts

SSF: SINGLEingle SUPPORTupport FRAMEWORKramework

Executive summary

I

Tunisia's 'Jasmine revolution', in January 2011, is regarded as the first of the 'Arab Spring' series of uprisings. Since then, Tunisia has substantially advanced its political transition to democracy during a period of uncertainty characterised by political instability, social unrest and terrorist attacks. The EU has provided considerable political and substantial financial support to help Tunisia cope with the new challenges. In the period 2011 to 2015, the EU allocated a sum of 1.3 billion euro bilateral assistance to Tunisia.

II

We assessed whether the EU assistance delivered to Tunisia after the Arab Spring revolution of 2011 has been well spent. We conclude that the money was generally well spent as it contributed significantly to the democratic transition and the economic stability of Tunisia after the revolution. However, there were a number of shortcomings in the Commission's management of the assistance.

III

The European External Action Service (EEAS) and the Commission responded quickly with financial support to address two of the main challenges: the economic crisis and the transition to democracy. We found that the Commission tried to tackle too many areas with the result that the potential impact of its aid was diluted and its numerous actions were difficult to manage. EU actions were well coordinated with the main donors and within the EU institutions and departments, but joint programming with the Member States was not realised.

IV

EU finance was delivered in a number of ways: general and sectoral budget support, a Macro-Financial Assistance (MFA) loan and stand-alone projects.

V

Four large budget support programmes transferred substantial funds quickly, and assisted the Tunisian counterparts to shape a reform agenda. Nevertheless, the disbursement conditions were too flexible and reduced the partner's incentive to take the measures specified in the financing agreements. The Public Expenditure and Financial Accountability (PEFA) assessment, which could serve as an indisputable test of the real progress on reforms in the public finance sector, has not been made since 2010. The new PEFA assessment is expected to be finalised in March 2017.

VI

Slow implementation was a major shortcoming which was common to the MFA loan, most of the sectoral budget support and projects. The MFA loan helped Tunisia to access finance on favourable terms. Sectoral budget support was provided to three sectors but two of these lacked credible sector strategies. For both sectoral budget support and projects, we found cases where the objectives of actions were neither specific nor measurable.

VII

The Tunisian authorities implemented some significant reforms but at a very slow pace. This slow implementation was mainly due to the numerous changes of government and the significant nature and number of the challenges faced. The Commission has committed itself to continue supporting Tunisia, both politically and financially, in dealing with these challenges.

VIII

The report sets out a number of recommendations to improve the planning of the assistance and the management of the EU actions.

Introduction

Country context

01
Tunisia is a lower middle income country situated in North Africa. In 2015 it had a population of approximately 11 million and a Gross National Income per capita of 3 970 USD[1]. After 23 years in power President Zine El Abidine Ben Ali was deposed in January 2011 following the Tunisian Revolution, also known as the 'Jasmine Revolution'. This is regarded as being the first of the uprisings collectively known as the Arab Spring.

02
Tunisia is the post Arab Spring revolution country with the most advanced political transition. In the past four years, it adopted a new constitution and held free and fair elections. The 2015 Nobel Peace Prize was awarded to the National Dialogue Quartet[2] for 'its decisive contribution to building a pluralistic democracy in Tunisia, in the wake of the Jasmine Revolution of 2011'.

03
After 2011, the country experienced significant uncertainty, social unrest and attacks against civil targets by armed militants. In this period, it has struggled to preserve short-term macroeconomic stability in the face of a difficult international economic environment and increased regional turmoil.

04
Strengthening economic activity is one of the most significant challenges of Tunisia as this is a prerequisite for sustainably addressing the core socioeconomic concerns of the country, namely high unemployment and regional disparities. During the decade 2000 to 2010, Tunisia achieved average economic growth of 4.4 %, but the rate contracted by 1.9 % in 2011, the year of the revolution. The overall unemployment rate is high. After rising to 19 % in 2011, it improved to 15 % in 2015. Nevertheless, the rate of unemployment is particularly high among women (23 %), young graduates (67 %), and young people in general (35 %)[3].

05
Tunisia faces challenges related to the weak institutional capacity, the excessive centralization of decision making and corruption. Tunisia ranked in the middle of the ranking, 76th out of 174 countries in 2015, in Transparency International's Corruption Perception Index[4]. The World Justice Project Rule of Law Index for 2015 ranks Tunisia 43rd overall and among the best countries in the region.

1 The World Bank, World Data Bank, Development Indicators.

2 The National Dialogue Quartet was formed in 2013 and comprises four organisations in Tunisian civil society: The Tunisian General Labour Union, the Tunisian Confederation of Industry, Trade and Handicrafts, the Tunisian Human Rights League and the Tunisian Order of Lawyers.

3 International Monetary Fund, 'Request for an extended arrangement under the extended Fund Facility', May 2016.

4 Tunisia transparency score has decreased from 41 in 2012 and 2013, to 40 in 2014 and 38 in 2015.

06
Security is increasingly becoming an important challenge. Following the clashes with Salafists (2012), and political assassinations (2013), the 2015 terrorist attacks at the Bardo Museum, in Sousse and against the Presidential Guard dealt a severe blow to the country's economy[5] and the society alike.

EU cooperation framework

07
The EU-Tunisia Association Agreement of July 1995 is the basis for bilateral relations. In November 2006, the Commission produced a Country Strategy Paper laying down the framework for EU cooperation with Tunisia for 2007-2013. In November 2010 the Commission produced a mid-term review of the strategy and the National Indicative Programme (NIP) for the period 2011 to 2013[6], which put this strategy into practice.

08
EU cooperation changed significantly following the Arab Spring revolution, in 2011. In March 2011, the EU committed to support all its southern neighbours that were 'able and willing to embark on reforms through a Partnership for Democracy and Shared Prosperity'[7]. In May 2011, the European External Action Service (EEAS) and the Commission adopted a new approach towards the sixteen countries of the European Neighbourhood[8]. This new approach aimed at strengthening the partnership between the EU and the countries and societies of the neighbourhood, building and consolidating healthy democracies, pursuing sustainable economic growth and establishing links among the people and the civil society of the countries in the region. Based on the new strategic approach, in 2012, the EU concluded a political agreement with Tunisia on an Action Plan for the period 2013 to 2017 which established a privileged partnership[9]. The key elements of that partnership are:

(a) deeper political cooperation, including high level political dialogue, parliamentary cooperation, cooperation on security issues and democracy and justice;

(b) greater social and economic integration with the European Union in order to build a Common Economic Area, as well as developing the EU-Tunisia Deep and Comprehensive Free Trade Agreement;

(c) a closer partnership between peoples by strengthening individual and organisational links in the areas of education, employment, health, culture, immigration and mobility.

5 In 2015, tourism activities (foreign exchange receipts) declined by 54 %.

6 EEAS/European Commission, Tunisie Programme Indicatif National 2011-2013.

7 COM(2011) 200 final of 8 March 2011 'A partnership for Democracy and Shared Prosperity with the southern Mediterranean'.

8 COM(2011) 303 final of 25 May 2011 'A new response to a changing Neighbourhood'.

9 EEAS, 'Relations Tunisie-Union Européenne: Un partenariat privilégié. Plan d'Action 2013-2017' https://eeas.europa.eu/delegations/tunisia/documents/press_corner/plan_action_tunisie_ue_2013_2017_fr.pdf

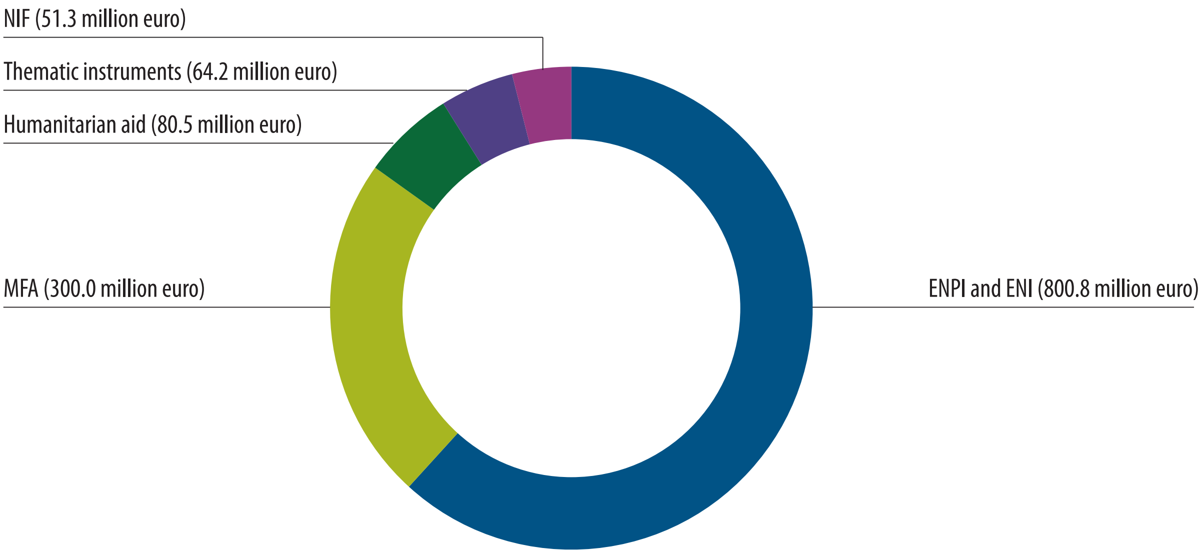
Funding for development

09
The bilateral cooperation assistance allocated to Tunisia for the period from 2011 to 2015 was 1.3 billion euro. This financing included programmes of the European Neighbourhood and Partnership Instrument (ENPI) and the European Neighbourhood Instrument (ENI), thematic instruments and programmes[10], humanitarian aid, the Neighbourhood Investment Facility (NIF), and one MFA agreement signed in 2014 (see ***Graph 1***).

10 The thematic instruments are the European Instrument for Democracy and Human Rights, the Instrument contributing to Stability and Peace, the cross-border cooperation programme (Italy-Tunisia), and the programme for non-state actors and local authorities.

Graph 1

Commitments to Tunisia by financing instrument for the period 2011 to 2015



Source: European Union Delegation (EUD) in Tunisia, Rapport 2015, Coopération de l'Union européenne en Tunisie, May 2016 and Common Relex Information System (CRIS) database.

10
In the period from 2011 to 2015, the Commission planned and implemented budget support programmes (see ***Box 1***), both general and sectoral, an MFA loan and stand-alone projects. The general budget support programmes consisted of a cluster of five consecutive programmes[11] that aimed at the relaunch of the economy and included measures for structural reforms in various areas. The sectoral budget support programmes had essentially been set up before 2011 but disbursements were mostly made after the revolution. They covered various areas such as education, water, environment and state budget reform. Additionally, the Commission funded projects covering services, works, procurement of equipment and twinning programmes. The Commission contracted with different types of implementing bodies such as UN agencies, national agencies and civil society organisation.

11 PAR1 is a multi-sectoral budget operation, and PAR2 to PAR5 are State Building Contracts (SBC) operations. SBC provide budget support in fragile and transition situations. They were introduced by the Commission in 2012 and, for the purposes of DAC coding they are considered as general budget support.

Box 1

The budget support modality

Budget support involves the transfer of financial resources to the National Treasury of a partner country, following the respect by the latter of agreed conditions for payment. It is not provided to every country. Eligibility criteria have to be met before and during the programme and conditions need to be fulfilled before payments are made.

It involves dialogue, financial transfers to the national treasury account of the partner country, performance assessment and capacity development, based on partnership and mutual accountability.

Budget Support is paid in fixed or variable tranches. Fixed tranches have a fixed value, specified in advance within the financing agreement. They are disbursed in full (when all conditions are met) or not at all (if one or more conditions are not met). Variable tranches have a maximum value specified in advance in the financing agreement. They are either disbursed in full or in part with the amount disbursed being based on the performance achieved in relation to pre-specified targets or designated performance indicators (provided that at the same time the general conditions are all met).

Extracts from the European Commission’s Budget Support Guidelines, September 2012.

11
France and Germany are the other major European bilateral donors[12].The European Investment Bank (EIB)[13] and the European Bank for Reconstruction and Development (EBRD)[14] are major lenders in Tunisia. International financial institutions also provide substantial funding. Since 2012, the World Bank has committed 2.1 billion USD in total. The International Monetary Fund (IMF) also has considerable involvement in Tunisia. In May 2016, the IMF approved a second country programme, a 48 month extended arrangement for an amount of 2.9 billion USD[15].

12 Since 2011, they have allocated to Tunisia 776 and 950 million euro respectively in loans and grants.

13 Since 2011, the overall financing to Tunisia is 1.5 billion euro (in sectors such as industry, water, transports, energy and services).

14 Since 2013, the EBRD has financed 25 projects and disbursed a total of 300 million euro.

15 This is the second programme of IMF in Tunisia. In the period from 2013 to 2015, a stand-by agreement programme disbursed 1.6 billion USD to Tunisia.

Audit scope and approach

12

The audit examined whether the EU assistance delivered to Tunisia after the Arab Spring revolution of 2011 has been well spent. In order to carry out this assessment, the audit of the efficiency and effectiveness of the assistance answered the following sub-questions:

(a) Did the EEAS and the Commission address key challenges faced by Tunisia?

(b) Did the Commission implement its programmes well?

13

The audit covered the spending through the ENPI and the ENI. It focused on the economic crisis response programmes and the EU actions in the areas of democratic transition, governance, justice, and economic growth. The audit also covered MFA.

14

The audit sample covered 70 % of the bilateral cooperation assistance allocated to Tunisia from 2011 to 2015[16]. As well as the MFA loan, we audited seven budget support programmes and fourteen projects. More detailed information on the EU actions covered is given in ***Annexes I*** and ***II***.

15

The audit work was carried out between March and July 2016. We gathered evidence for our assessment through documentary review and interviews with the EEAS, the Commission and the EU Delegation in Tunis, the Tunisian authorities, Civil Society Organisations, as well as International Financial Institutions and other donors[17]. We also carried out a two week visit to Tunisia in May 2016.

16 The overall bilateral cooperation assistance for the period from 2011 to 2015 is 1.3 billion euro. This sum includes programmes through the ENPI, the ENI, the thematic instruments, the NIF and the MFA loan.

17 The IMF, the African Development Bank, the World Bank, the Agence Française de Développement.

The EEAS and the Commission addressed most key challenges with substantial additional funds in coordination with the main donors but aid was not sufficiently focused

16
In this section, we examine whether priorities and funding allocations were properly adapted after 2011 in order to address the key challenges faced by Tunisia. We also assess whether the challenges were promptly addressed through well-coordinated actions.

Funds were significantly increased to address urgent requirements

17
In 2010, before the revolution, the Commission had a development aid programme[18] of 240 million euro for the period 2011 to 2013. It set the following priority areas for the development assistance: employment, economic reforms and support to the private sector and justice. A cross-cutting objective was to extend the reach of good governance.

18
In the aftermath of the revolution the funds allocated were substantially increased and the focus of the EU bilateral cooperation was changed. The allocations for the period 2011 to 2013 almost doubled to 445 million euro. The average annual allocations, from the ENPI and the ENI[19], surged from 80 million euro, for the period before the revolution, to 170 million euro, for the period from 2011 to 2015 (see ***Graph 2***). The significantly augmented funding was granted in particular through the incentive-based mechanism 'more for more' which provided additional assistance to the partner countries showing sustained commitments to and progress in reforms[20].

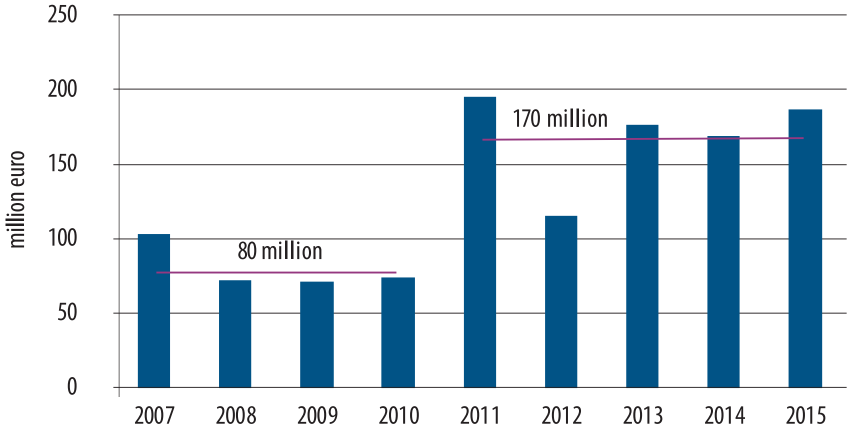
18 The multi-annual development assistance strategy for the period 2007 to 2013 was laid down in the country strategy paper. The NIP 2011-2013 defined in further detail the allocated funds and the priorities. The NIP referred to the funds allocated under the ENPI.

19 From 2014 onwards, ENI has replaced ENPI as the main development cooperation instruments with the neighbourhood countries.

20 The 'more for more' incentive mechanism (called SPRING in the context of ENPI (until 2013) and Umbrella funds in the context of the ENI (see also table 1 on the additional contributions)).

Graph 2

ENPI and ENI annual commitments to Tunisia for the period 2007 to 2015



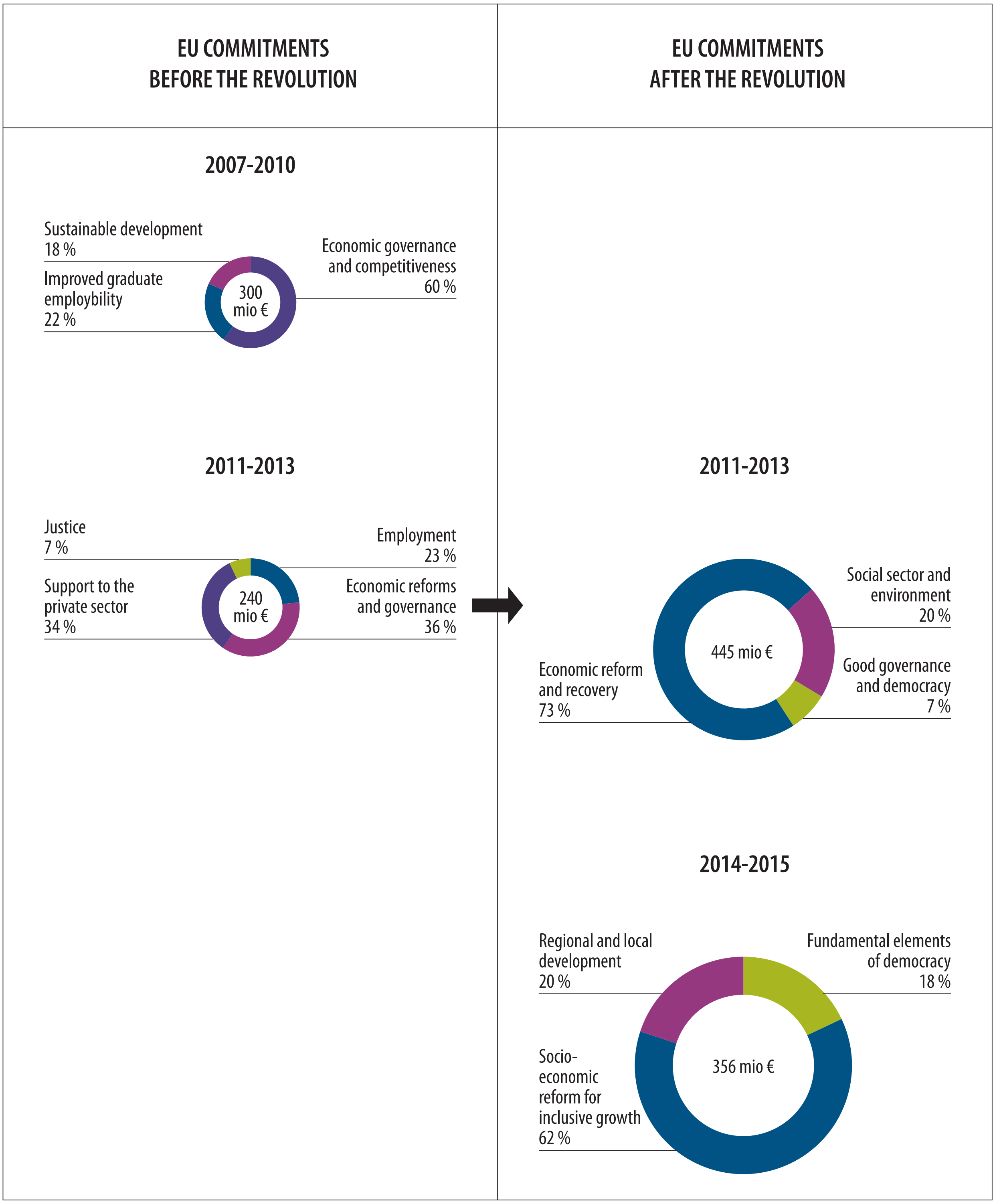
Source: CRIS Database.

19

Since 2011, support for democracy has been one of the targeted areas for assistance (see ***Graph 3***). EU election observation missions were undertaken to ensure that elections were conducted properly. Further support for the democratic transition was provided by programmes to support civil society, justice and the activities of the new parliament. After 2011, the Commission prepared programmes to address the regional disparities which were among the causes of security and social tensions. These programmes supported marginalised areas, the rehabilitation of low-income neighbourhoods and the health sector.

Graph 3

ENPI and ENI commitments to Tunisia before and after 2011 by priority area (size in proportion of the allocations per year)



Source: European Commission NIPs and State of the Play, October 2015.

20
The additional funds that were made available after the revolution, allowed the EEAS and the Commission to provide substantial support for the national programme for economic recovery. In a fragile and deteriorating macroeconomic situation, the Programme d'Appui à la Relance (PAR) was a large relaunch programme which brought together substantial funds from various donor and financial institutions to provide much needed funds to tackle the pressing economic needs. The Commission contribution to PAR was its largest outlay in terms of funds committed in Tunisia. This funding comprised of five general budget support programmes that committed 448 million euro in five years, i.e. more than half of the funds allocated under ENPI and ENI for the period 2011 to 2015. This amount was bolstered by 'more for more' funds which provided an extra 155 million euro in the period from 2011 to 2015 (see paragraph 18 and ***Table 1***). This general budget support had particular significance for the Tunisian authorities as most of the other funding provided from donors was in in the form of loans, which had servicing costs and payback obligations.

Table 1

Contribution of 'more for more' allocations to PAR programmes

(million euro)

PAR programme	Year	Overall allocated amount	'more for more' funds allocated to PAR programmes	Total 'more for more' funds allocated annually
PAR1	2011	100	10	20
PAR2	2012	68	0	80
PAR3	2013	110	45	55
PAR4	2014	100	47	50
PAR5	2015	70	53	71.8
Total		**448**	**155**	**276.8**[1]

1 The balance of 'more for more' funds of 121.8 million euro was used for projects over a wide range of areas e.g. justice, renovation of infrastructure of poor neighbourhoods, etc.

Source: EEAS and CRIS database.

21
The Commission addressed the economic needs of the country primarily through the PAR programmes but additional support was provided through an MFA loan and specific projects. Following a request from the Tunisian authorities a loan of 300 million euro was provided, in 2014, to supplement the IMF loan in support of the government's economic stabilisation and reform programme.

22

While the macroeconomic and democratic reform challenges could be tackled relatively quickly, the same was not true for the security sector reform. The Tunisian government first requested EU support for this reform as early as October 2011. The Commission responded promptly to this request but it took two years before Tunisian authorities agreed on the terms of reference for a peer review of the security sector in Tunisia. In December 2013, twelve security experts from the EU Member States produced a peer review report. After the approval of the Tunisian authorities, an identification and formulation mission was carried out, in January 2015. The terrorist attacks in March and June 2015 accelerated the political dialogue and in November 2015 the Tunisian government signed up to the Commission's proposal for a security sector reform programme with a budget of 23 million euro. This was four years after the initial request. Following approval of the programme, a contract for the rehabilitation of security infrastructures and the supply of equipment was signed in June 2016.

Funds were spread over too many areas

23

The Tunisian authorities did not manage to develop a reliable and comprehensive national development plan. The lack of this plan prevented the donors from having an overall view of the country's priorities, the required funds, and the progress on key indicators. Thus, EU actions were designed on the basis of the continuous and intensive policy dialogue with the Tunisian authorities, on reports produced by various needs assessment and identification missions organised by the EEAS and the Commission.

24

The EU actions covered a very wide range of activities. Following the 2011 revolution, there was strong demand for support across numerous sectors. The Action Plan for 2013-2017 of the privileged partnership (see paragraph 8) set thirteen priorities each of which was assigned multiple actions. Given the increase of the available funds, the Commission expanded the scope of cooperation to try and meet this demand. The strategic documents such as the NIP 2011-2013 and Single Support Framework (SSF) 2014-2015, set very broad priority areas. This led to decisions being adopted and projects being planned which covered too many areas. In the SSF for 2014-2015, one of the priority sectors (fundamental elements of democracy) included six distinct components covering a wide range of areas: justice, equal opportunities, migration and border management, media reform, security sector reform and support for the cultural sector[21]. The EUD's annual report[22] refers to actions spread over more than twenty headings (including education, health, agriculture, environment, climate change, transports, research, and thematic areas such as trans-border cooperation).

21 Commission Directorate General for Neighbourhood and Enlargement, Tunisia Financial Assistance fiche, State of play: October 2015.

22 EUD, Rapport 2015, Coopération de l'Union européenne en Tunisie.

25
The huge variety of activity areas was contrary to the Commission's own objective of focussing aid on a small number of areas. Recognised best practice in the allocation of development aid, as set out in the EU Consensus on Development[23] and the Paris Declaration on Aid Effectiveness[24] states that EU donors should aim at focusing their active involvement in a particular country on a maximum of three sectors each. By not sufficiently focusing its efforts, the Commission diluted the potential impact of the funding and made its management more difficult.

EU actions were well coordinated with the main donors, but joint programming with the Member States was not achieved

26
The EU actions were well coordinated with the main international development stakeholders in Tunisia such as the IMF, World Bank, African Development Bank (ADB) and the Agence Française de Développement (AFD). The EU planned and implemented important programmes together with other donors – in particular budget support and the MFA. Certain EU projects were executed by UN agencies, national development agencies and development banks. As of 2016, there were also nine ongoing twinning projects with a total budget of 12 million euro that were financed by the EU and implemented by Member States[25].

27
The EU is the donor which gives the highest amount of grants to Tunisia and is present in many different areas. The EUD therefore has a significant role in the donor community. It actively facilitates the coordination of the donors who meet at least monthly and discuss in detail the planning of the programmes as well as problems which arise during the implementation of the programmes.

28
The EEAS and the Commission worked in close collaboration with the Member States through regular consultations and frequent exchanges of relevant information at each stage of the programme cycle, in particular, in the context of the ENI committee. However this collaboration did not extend to joint programming with the MS which was recommended by the ENI regulation[26]. The EEAS and the Commission have been carrying out discussions with EU Member States over the past four years with a view to gradually engaging in joint programming in Tunisia.

23 Council, European Parliament and Commission on European Union, (2006/C 46/01), Joint statement by the Council and the representatives of the governments of the Member States meeting within the Council, the European Parliament and the Commission on European Union Development Policy: 'The European Consensus'.

24 OECD, Paris Declaration on Aid Effectiveness, 2005 (http://www.oecd.org/dac/effectiveness/34428351.pdf).

25 Germany, Spain, France, Italy, the Netherlands and Austria.

26 Article 5 of Regulation (EU) No 232/2014 of the European Parliament and of the Council of 11 March 2014 establishing a European Neighbourhood Instrument (OJ L 77, 15.3.2014, p. 27).

EU actions substantially assisted Tunisia but there were shortcomings in the Commission's implementation of programmes

29

In this section, we examine how well the Commission has implemented its bilateral development assistance programmes. We assess four types of programmes: (a) four general budget support programmes, (b) three sectoral budget support programmes, (c) the MFA loan, and (d) 14 projects. We assess their design, execution and the outputs delivered.

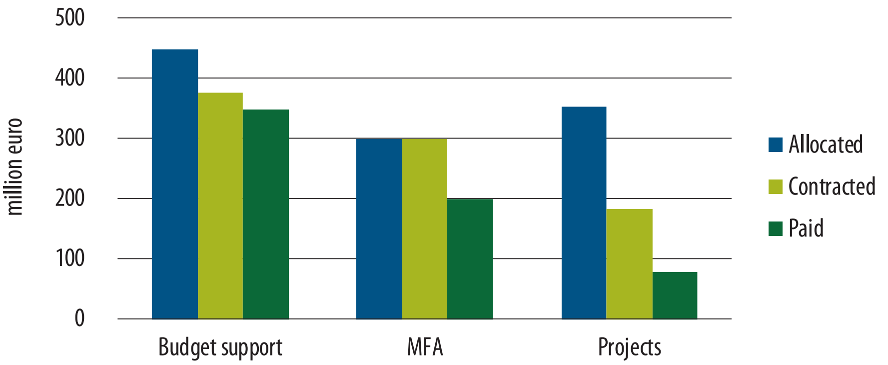
General budget support was disbursed quickly but the conditionality attached was too flexible

30

The PAR programmes (see paragraph 20) represented about 56 % of the ENPI and ENI commitments. These programmes managed to channel substantial funds to Tunisia, relatively quickly. Overall, it took one to two years from the design to the disbursement of the bulk of the amount contracted. Thus, by the end of 2015, the PAR programmes has paid out 78 % of the amounts committed for 2011-2015, while the figures for the MFA loan and projects were 67 % and 22 % respectively. By the end of 2015, only 60 % of the available allocations to projects were contracted, while the budget support and the MFA allocations were contracted 85 % and 100 % respectively (see ***Graph 4***).

Graph 4

Amounts allocated, contracted and paid by type of assistance (as at 31.12.2015, 2011-2015 period)



Source: CRIS database.

31

This EU assistance was designed to channel substantial amounts to support the fragile economy, promote social cohesion, and encourage Tunisia 'to embark on reforms through a Partnership for Democracy and Shared Prosperity'[27]. The related disbursements during the period 2011 to 2015 were about 350 million.

32

The first PAR programme was jointly planned and implemented with the World Bank, the ADB and the AFD[28] while the second was with the World Bank and the ADB. The overall budget of PAR1 was 1 billion euro in loans and grants (out of which 100 million euro was the contribution of the EU). The overall budget of PAR2 was 720 million euro in loans and grants, to which the EU contributed 68 million euro. The joint planning and execution of those programmes amplified the donor's leverage on the partner country to implement reforms. It also ensured that there was no duplication of efforts among the donors. The subsequent PARs 3 and 4 were financed by the EU only.

Disbursement conditionality was too flexible

33

The EU contribution to the PAR programmes was by means of general budget support. From 2013 onwards this was classified as 'state building contracts' (SBC). This is the most flexible form of budget support and is designed for countries in a fragile situation or in transition. Disbursement conditions under this form of budget support are more flexible as, for instance, the eligibility condition for partner countries to have a reliable and credible national development plan is not required as long as the government commits to develop one. According to the Commission's own budget support guidelines, SBCs are not supposed to last more than one or two years. For Tunisia, this form of budget support has already been given for three years (PARs 3 and 4) but will be used again in the latest PAR (PAR5), for a duration of three more years.

27 COM(2011) 200 final.

28 The contribution of the three co-donors was in loans.

34

The PAR programmes function through the disbursement of one or two tranches over a maximum of two years. Under the best practices applicable to the budget support programmes, the Commission firstly agrees a reform programme with the partner country. Based on this programme, the Commission then decides on the conditions for disbursement, signs the financing agreement, and allows a period of time for the partner country to implement these reforms and consequently fulfil the conditions of disbursement. However, in the case of the PAR programmes, the conditions were substantially met prior to the financing agreement, already during the planning stage. This *modus operandi* was systematically used by the Commission in order to expedite the payment of the first tranche of the PAR programmes. Thus, the disbursement of the first tranche of PAR1 was made two months after the signature of the financing agreement; for the PAR2 and PAR3 this was made after only two weeks (see ***Table 2***).

Table 2

PAR programmes execution

PAR programmes				Speed of implementation				
Programme	Decision year	Allocated	Paid	Date of the signature of the Financing Agreement	Date of payment (1st tranche)	Date of payment (2nd tranche)	Time gap between the Financing Agreement and 1st payment	Time gap between the Financing Agreement and 2nd payment
PAR 1	2011	100 000 000	99 424 813	28.9.11	2.12.11	17.12.12	64	439
PAR 2	2012	68 000 000	65 415 314	4.12.12	17.12.12	NA	13	NA
PAR 3	2013	110 000 000	110 000 000	6.12.13	20.12.13	4.12.14	14	358
PAR 4	2014	100 000 000	75 000 000	8.7.15	8.12.15	pending	150	pending

Source: CRIS database (October 2016).

35

In one case (PAR1) the measures for the second tranche were not fixed when the contract was signed, but one year later. The measures needed to fulfil the conditions for the payment of all the programmes’ tranches should be agreed when the financing agreement is signed, in order to give sufficient time to the partner country to implement the reforms.

36
As the additional 'more for more' funds constituted almost one third of the programmes' budget, we examined whether they were used to establish new conditions and trigger new measures from the Tunisian authorities. Only in the case of PAR3, a variable tranche, with three specific conditions, was further conditionality added for the extra funds. These funds were determined towards the end of a programme's planning (see ***Box 2***) and while this was certainly a complicating factor, it did not preclude the establishment of conditions and measures.

Box 2

The procedure for allocating the additional funds 'more for more'

Steps of the procedure:

- In December of year N, the EUD produces the first draft of the progress report;
- In March of year N+1, EEAS and the EC produce a joint note on the progress in all neighbourhood countries;
- In June of year N+1, a decision is taken (it is approved by the ENI committee). The funds have to be committed to specific programmes by the end of year N+1.

37
The PAR disbursements were conditional on the fulfilment of a great many specific measures. On average each of the four programmes examined included 27 specific measures. These covered many wide ranging areas, namely: (a) transparency, democratic participation, justice and the fight against corruption, (b) public finance, (c) regional disparities, (d) unemployment and social inclusion, (e) micro-finance, and (f) economic growth. The large number of addressed areas dilutes the focus of the policy dialogue with the partner country.

38
The Commission took payment decisions having assessed overall progress and the government commitment to a national development plan rather than the completion of each measure required from the Tunisian authorities. In practice, this meant that the Commission assessed the overall progress as satisfactory even though some measures had not been taken. This approach reduced the partner's incentive to take the measures set out in the financing agreement and weakened the leverage the Commission could exert on the Tunisian authorities to implement much needed reforms.

39
The Commission focused on output measures as opposed to long term results because of the political instability in the country. Most measures of the PAR programmes were designed to be achievable within a short time frame and often took the form 'decree *X* shall be adopted by government' or similar. However, a decree can be adopted by the government, but may not be promptly and properly implemented by the administration. In fact, implementation of some structural reforms continues to be unsatisfactory or slow, even in the areas where the Tunisian government has taken some measures.

Public Finance Management assessment delayed

40
There has been no overall evaluation of the PAR programmes. Given the size and complexity of these programmes an overall evaluation could have provided useful feedback on the progress of the reforms and indicate weaknesses in the approach.

41
The Commission made use of various evaluations that were carried out, by different international organisations, on specific aspects of governance. However, these were not intended to substitute for the PEFA, which is a very thorough and widely respected overall assessment of public financial management. Although the Commission's budget support guidelines recommend a PEFA assessment every four years the last one was made in 2010. A commitment to conduct a new assessment was made in 2014 to be co-financed by the EU, the World Bank and the ADB. However, there were major delays in contracting an expert and in discussing the draft report with the Tunisian authorities. The new PEFA assessment is expected to be finalised in March 2017.

42
Not only was the PEFA assessment required to provide assurance on all aspects of public finance management, it was also needed as an indicator of possible weaknesses which might need to be urgently addressed. For these reasons and, in view of the very significant amounts of budget support being paid to the national treasury, it is unsatisfactory that this assessment was not available within the period specified in the guidelines.

Slow pace of reform

43
Overall, some progress has been made in the areas covered by the programmes but the pace of reforms has been slow.

(a) With regard to transparency and participation, there has been progress in the areas of access to administrative information, association rights, transparency of the budget and publication of the reports of the Tunisian Court of Auditors. However, obtaining access to administrative information related to the government and public organisations is a continuous challenge.

(b) Regarding Civil Society participation, the setting up of a Non-Governmental Organisation (NGO) has been made easier but this is still a lengthy process. Although the legal framework provides that a new NGO can be set up in a few weeks only, in practice this takes six months to a year because of administrative bottlenecks.

(c) Concerning public finance management, the adoption of a National Development Plan and the organic law on budget is required in order to improve the execution of the budget. The implementation of reforms regarding public private partnerships and public procurement has been a slow process. A new law on public procurement which meets international standards has been adopted and an action plan to replace the cumbersome procedures is ongoing. A key challenge that remains is to increase the transparency, accountability and effectiveness of external and internal audit.

(d) In relation to regional disparities, the measures taken in the context of the PAR programmes have improved the revenues of the municipalities. Nevertheless, given the structural weaknesses i.e. reduced economic activities and lack of local taxes, the majority of the municipalities face financial difficulties which can only be solved by an extensive restructuring of their finance, in the context of the decentralization process foreseen for the beginning of 2017.

(e) With regard to social inclusion, the government has strengthened the social safety net by increasing the amount of monthly allocations and the number of beneficiaries. Nevertheless, it has not improved the targeting of potential beneficiaries which must await the development of a unified registry for households[29].

29 European Commission, Information Note to the European Parliament and to the Council, MFA to the Republic of Tunisia, disbursement of the Second Tranche, 26.11.2015.

(f) As far as the micro-finance is concerned, although the regulatory framework according to the international standards is in place, the access to micro-finance is still limited. An upgrade of the regulatory and supervisory framework, removal of existing caps on lending rates, and appropriate accounting norms would also help in this area[30]. It is important to note that the Commission implements a project aiming at supporting the development of microfinance in less developed areas of the country.

(g) To boost economic growth, a new investment code in line with the objective of protecting market access, reducing investment restrictions, and rationalising exemptions, has been prepared but has not yet been adopted by the Parliament.

44

The IMF noted delays in the implementation of the reforms required by its own programme 2013-2015. In its assessment[31] the IMF states that only about 60 % of the 46 structural benchmarks introduced under the programme were met. It further stated that 'the commitment of the authorities and of a broad spectrum of stakeholders to the reform agenda is essential to avoid reversals in program implementation'.

The MFA loan provided valuable access to finance despite delays and a low rate of disbursement

45

In August 2013 the Tunisian government asked the EU for a MFA loan. Tunisia had at that time a significant and urgent need for external financing. This aid, which was required urgently, took 21 months from the initial request to first payment (see ***Table 3***). The Parliament and Council have declared that the EU should be able to make MFA available expeditiously when circumstances call for immediate action[32]. Much of the delay can, however, be seen as outside the control of the EU, such as the time it took for Tunisia to ratify the Memorandum of Understanding of the MFA operation. However, in the context of a request for urgent financing, it still took a considerable amount of time to process this loan at EU level.

30 IMF, Tunisia, 2015 Article IV Consultation, Sixth review under the stand-by arrangement, and request for re-phasing, October 2015.

31 IMF, Request for an extended arrangement under the Extended Fund Facility, Annex I. The 2013-15 SBA-Context, Design, and Outcomes, June 2016.

32 Decision No 778/2013/EU of the European Parliament and the Council of 12 August 2013 providing further macro-financial assistance to Georgia (OJ L 218, 14.8.2013, p. 15).

Table 3

Timeline of the MFA

Date	Action	Months from the request of the programme
August 2013	Request by Tunisia	start
December 2013	Commission proposal	4
May 2014	Adoption by Council and Parliament	9
July 2014	MFA committee	11
August 2014	MoU counter-signed by Tunisia	12
March 2015	Ratified by the Tunisian Parliament	19
May 2015	1st tranche disbursed	21
December 2015	2nd tranche disbursed	28
October 2016	*3rd tranche pending*	*38*

Source: European Commission.

46

The EU agreed a loan of 300 million euro split into three tranches. The Commission financed the loan, through loans from financial institutions. Repayment and interest conditions for Tunisia were the same as the conditions the Commission got from the financial institutions. So far the interest rates have been low, between 0.498 % and 1.125 %. The repayment risk of the MFA loan was covered by the Guarantee Fund for external actions which is financed by the EU budget.

47

Further to the access to financing at low interest rates, the MFA loan provided for specific reforms through the conditions for disbursement in the loan agreement. The loan was designed in coordination with the IMF; the main condition for disbursement was satisfactory implementation of the IMF programme[33]. Additionally, it included nine conditions (similar to the conditions of the BSP); four conditions for the second disbursement and five for the third disbursement. The Commission ensured that the loan was well coordinated with the PAR programmes and the technical assistance provided by the EU and the other donors. The MFA programme provided much needed finance at low cost. By setting a limited number of conditions and monitoring their implementation it has managed to encourage the adoption of additional reforms. The Commission is preparing to make an additional loan of 500 million euro, having noted in this context: 'overall, reform progress remains limited, in part due to the delicate political transition, although the recent positive momentum is encouraging and government remains committed to continuing on a positive reform path'[34].

33 The Stand-By agreement programme 2013-2015.

34 COM(2016) 67 final of 12 February 2016 'Proposition for a Decision of the European Parliament and of the Council providing further MFA to Tunisia'.

Sectoral budget support programmes were relevant but lacked a credible strategy

Lack of credible strategies and robust conditions

48
The sectoral BSPs were relevant as they addressed some of the partner country's needs. Nevertheless, two out of the three programmes audited relating to the water sector and support to municipalities were not based on a credible strategy for either of these sectors. While some plans and studies were available no detailed comprehensive plan was available showing the priorities and how these were to be tackled.

49
Currently, Tunisia which benefits from state building contracts mainly because it lacks an overall national development plan incorporating the sectoral strategies, also benefits from funds of sectoral budget support programmes. This practice departs from the best practice as indicated in the guidelines of the Commission.

50
There were problems with the design of the conditions. The main weaknesses are illustrated in ***Box 3***:

(a) the baselines of the conditions were not known at the time of the signature of the programme;

(b) certain conditions were not appropriate;

(c) certain eligibility criteria were not met at the time of the signature of the financing agreement.

Box 3

Cases of weaknesses found in the design of sectoral budget support programmes

(a) In BS6 (water), the programme defined some indicators and the relevant performance criteria, without having established the baselines for these indicators. For example, one payment condition of the variable tranche for 5 million euro was the increase of the number of volumetric counters of deep wells by 300 in the first year, by 700 in the second year and by 1 200 in the third year. Nevertheless, at the time of the agreement, it was not clear to the Commission how many wells were or were not equipped with volumetric counters and the extent of the problem addressed by the condition was therefore unknown. Another payment condition for the variable tranche of budget support, relating to the collection of fees by the state for the pumping of ground water, has not yet been met.

(b) In the case of BS6, the programme set conditions that were easy to meet. For example, one payment condition of the variable tranche, for funds of 2.5 million euro, was the increase of the technical staff in a relevant department by 5 persons in the first year, by 10 the second year and by 25 the third year. However, the department reported an increase of the technical staff by 71 persons in the first year. In this case the payment condition was not based on an adequate analysis of the staffing requirements. The opposite situation also prevailed when other conditions were too difficult to meet, thus delaying the overall implementation of the programmes.

(c) In the cases of BS5 and BS6, not all eligibility criteria were met at the time of the signature of the financing agreement. The financing agreement of the BS5 stipulated that only the second and third tranche were covered by the general conditions for payment (eligibility criteria). Thus eligibility criteria were not applied to the first tranche of 9 million euro, which was disbursed based on signature of the budget support contract only. As regards BS6, even though one of the eligibility conditions was only partially met, the financing agreement was still signed. According to the Budget Support Guidelines the use of sector budget support as a modality depends on the outcome of the assessment of the eligibility criteria.

51
The Commission determined eligibility for payment under one programme (BS7) on the basis of its assessment that ‘satisfactory progress’ had been made **overall** on the matrix of payment conditions. This practice reduces the partner’s incentive to implement all the individual measures (see paragraph 38). This also raises the question as to why certain conditions for payment were set if they were not going to be applied.

Delays in the programme implementation

52
For two out of the three programmes audited there were substantial delays in the execution of the programmes. In one case (BS5) the implementation period has been extended by 70 % of the originally planned schedule (from 60 months to 102 months through four consecutive amendments) and in another case (BS6) by 33 % (an additional 24 months). Delays were due either to the programme’s environment (i.e. political instability, institutional resistance to change) or to weaknesses in the design (see paragraph 50).

53

Technical assistance projects were designed in parallel with the main sector budget support programme in order to assist the administration implement the reform programme agreed. Nevertheless, in two cases (BS5 and BS6) there were delays in contracting the technical assistance projects and for BS7 there was no technical assistance directly related to the implementation of the programme measures.

54

In several cases the impact of the programmes was substantially limited due to slow progress of the required reforms. For example, with regard to BS5 (decision of 2007), one intended important result of the programme was the reform of the annual budget. This reform was expected to advance considerably following the preparation of a law. However, its adoption by the Parliament is still pending and following the adoption of this law, five more years are needed in order to implement this reform fully.

Projects tackled relevant issues but there were design weaknesses and delays

Some design weaknesses made assessment of project performance difficult

55

Half of the projects in our sample[35] had one or more of the following weaknesses related to their design (see examples ***Box 4***):

(a) a lack of relevant, specific and measurable project objectives;

(b) missing indicators which didn't allow proper measurement of performance, monitoring of activities, and timely corrective actions;

(c) a lack of baseline indicators which restricted the comparison of the situation before and after the action;

35 Namely, PJ 7, 8, 10, 11, 12, 13 and 14.

Box 4

Cases of design weaknesses in the projects reviewed

(a) PJ12 was a technical assistance project aimed at reinforcing the institutional capacity of the Supreme Professional Institute of Lawyers. As a specific objective, the achievement of which would have to be assessed at a later stage, this was a vague formulation. The contract specified indicators such as the number of violations of human rights and the average duration of the civil and penal suits. Yet, these indicators were only marginally and indirectly related to the project and were not the most appropriate benchmarks to assess the achievement of the project's objective.

(b) Project PJ14 was designed to support the democratic transition in Tunisia. It aimed at establishing good practices, strengthening the capacity of Members of the Parliament, and improving the Parliament's administrative capacity. Although, the contract provided a description of the principal activities, there were no indicators established to allow measurement of performance and assessment of the added value of the project.

(c) The subject of PJ13 was the support for civil society in Tunisia. The objective and the indicators were vague and translated into a number of activities rather than specific indicators. Furthermore, as there were no indicators presenting the situation in the civil society, before and after the action, the assessment of the added value of the project was hampered.

56

In four projects[36] out of the fourteen examined some key elements were not included in the contracts (see ***Box 5***) and the level of detail in budgets was not adequate to properly assess the reasonableness of costs and therefore facilitate an assessment of efficiency.

36 Namely, PJ 6, 7, 8, and 10.

Box 5

Example of project with insufficient stipulations in the contract

With regard to PJ10, the contract was signed on the basis of a very general description and preliminary estimations of the works. Major works on the Court of Nabeul was one of the deliverables of the project. Initially, the procedures (preliminary study, design, technical study, execution dossier, specifications and tender dossier) covered the rehabilitation of the whole Court. Nevertheless, only one out of the three tender lots was executed by the beneficiary because the budget of the project was not enough to finance all the three lots. The remaining two lots (about 30 % of the overall budget) are supposed to be executed, at a later stage, by the Tunisian authorities. In this case, the absence of detailed description of the scope in the contract didn't allow for a proper assessment of the efficiency and effectiveness of the project.

57

With regard to the two projects contracted with an intermediary[37], the Commission committed to pay this intermediary about 1.2 million euro as administrative fees. The planning documents did not include an analysis of the added value of using an intermediary instead of contracting directly with the final beneficiary[38].

Substantial delays in the execution of the projects

58

The implementation period of the projects was substantially extended in ten of the fourteen projects in the sample (see ***Table 4***). In six cases[39] the implementation period was extended by more than 50 % of the agreed implementation period. Delays in implementation were to a large extent due to the fact that the time needed to achieve certain results had been initially underestimated. In most of the cases, time extensions result in the increase of certain costs categories, such as staff costs, which have to be funded from the Commission's fixed contribution[40]. Less funding will then be available to finance the core activities of the project. As these contracts were signed after 2011, the Commission was aware of the difficult circumstances in the country, still it did not adapt the time frame and the scale of the projects accordingly.

37 The projects PJ7 and PJ8, with a cumulative budget of 41 million euro, aimed at reducing the social inequalities and regional disparities in urban and sub-urban areas through infrastructure works that improved the quality of life, creation of employment and access to micro-finance.

38 As the EIB has done in the context of the same action.

39 Namely, PJ 1, 2, 6, 8, 12 and 14.

40 European Court of Auditors, Special Report No 3/2011 'The efficiency and effectiveness of EU contribution channelled through UN organisations in conflict-affected countries' (http://eca.europa.eu).

Table 4

Extensions to project implementation periods

(in months)

Project	Contract Year	Original duration	Duration		Extension of the duration
			1st amendment	2nd amendment	
PJ1	2011	23	46	52.5	29.5
PJ2	2011	23	46		23
PJ3	2012	8			0
PJ4	2012	8			0
PJ5	2015	60			Original contracted period still ongoing
PJ6	2012	36	56		20
PJ7	2012	48			0
PJ8	2013	42	69		27
PJ9	2013	36	48		12
PJ10	2013	43	53		10
PJ11	2011	30	34		4
PJ12	2011	18	24.5	34.5	16.5
PJ13	2013	36	42		6
PJ14	2012	32	39	51	19

Source: CRIS database.

59
For three of the projects examined[41] we found that the impact and sustainability of the results achieved to date were not safeguarded by a proper exit strategy. In those cases, the projects created mainly temporary jobs, but further funds and policy actions are necessary to ensure their continuation. As the Tunisian counterpart lacked enough funds and capacity to maintain the infrastructure delivered by the projects, sustainability will depend on the availability of further support from donors.

60
The impact of four projects[42] was substantially impeded by the slow progress of the required reforms. For example, in 2012, about 2.5 million euro was spent to supply to Tunisian institutions special equipment to test conformity of electronic products with EU rules. Nevertheless, this equipment has been of limited use because Tunisia has not yet adopted the relevant EU standards as provided by the Agreement on Conformity Assessment and Acceptance of industrial products.

61
Although two factors, namely project design weaknesses and slow project implementation, hampered the assessment of the projects, overall projects addressed real country needs and contributed to some important progress in relevant areas. For instance, the projects to support small and medium industries delivered useful support to 700 businesses. Two other projects contributed significantly to the rehabilitation of poor urban districts and the project relating to the Parliament improved its infrastructure and reinforced its cooperation with the European Parliament.

41 Namely, PJ 6, 7 and 8.

42 Namely, PJ 3, 4, 11 and 12.

Conclusions and recommendations

62
EU funding made a significant contribution to the democratic transition and to the economic stability of Tunisia. We conclude that in the period following the revolution in 2011, the EU funds have been generally well spent. Extra funds were made available to cope with the new challenges and the Commission worked closely with other donors to organise the channelling of funds. However, a number of shortcomings were identified in the EU management of the assistance.

63
While progress has been made this has been slow mainly due to a number of factors which included many changes of government and the lack of an overall national development plan. The lack of such a plan from the Tunisian authorities considerably complicated the process of properly targeting the Commission's assistance (see paragraph 23).

64
In general, the Commission's approach was very ambitious as it tried to address too many priorities. The wide range of issues tackled and activities undertaken through Budget Support, projects and the MFA loan, conflicts with the Commission's own policy of concentrating its assistance on a small number of key areas and activities (see paragraphs 24 to 25).

65
Coordination with other donors was good across a wide spectrum of activities although joint programming with Member States was not achieved (see paragraphs 26 to 28).

Recommendation 1 - Strengthen the programming and focus of the EU assistance

The EEAS and the Commission should:

(a) use political and policy dialogue to ensure that the Tunisian authorities adopt a comprehensive national development plan.

(b) for the next planning period, develop a limited number of specific priorities and reduce the number of actions in order to increase the focus and potential impact of the EU assistance.

(c) make sure that joint programming with Member States is achieved, in order to improve the focus and coordination of the aid.

66
Aid was given through a number of aid modalities, comprising mainly of General Budget Support (State Building Contracts), Sector Budget Support (Sector Reform Contracts), an MFA loan and projects. Tunisia also benefitted significantly from the 'more for more' initiative which significantly increased the funds available for General Budget Support (see paragraphs 30 to 31).

67
The General Budget Support was provided through the PAR programmes, which were also substantially funded by World Bank and IMF loans, in the early years. This form of support helped the government shape the reform agenda and, under the classification of State Building Contracts, allowed for more flexibility than traditional budget support. However, it is designed to be a short term approach, lasting one to two years, rather than a long term solution (see paragraphs 32 to 33).

68
When the financing agreements of budget support programmes were signed some of the conditions therein had already been met, or were met shortly afterwards. This considerably reduced the incentive element of the support. The implementation of the many measures, required by the financing agreements, was assessed as a whole, with the result that payments were made even when some of the relevant measures were not carried out (see paragraphs 34 to 39).

69
The allocation of 'more for more' funds was decided at a very late stage which created difficulties for planning the best use of this assistance. Regarding the additional impact intended to be achieved from the substantial transfers of 'more for more' funds, this was not clearly apparent (see paragraph 36).

70
The PEFA provides an internationally recognised, comprehensive assessment of a country's public financial management. This should be carried out every four years according to the Commission's own Budget Support Guidelines. Given the large amounts paid in the form of budget support and the importance of PEFA as a monitoring and planning tool it is unsatisfactory that no PEFA has been carried out since 2010. The new PEFA assessment is expected to be finalised in March 2017 (see paragraphs 40 to 42).

Recommendation 2 - Strengthen the implementation of EU budget support programmes

The Commission should:

(a) for future budget support programmes, reduce the number of measures required to meet the conditions attached to Budget Support and ensure that these measures are significant. In order to incentivise the Tunisian authorities to make significant progress with their reforms, the Commission should make disbursements conditional on the satisfactory attainment of individual measures and performance indicators, rather than on overall progress.

(b) strive to ensure that a PEFA, in view of its significance as a planning and monitoring tool, is carried out every four years as a minimum.

71

The MFA loan of 300 million euro, which was urgently required by the Tunisian authorities, took nearly two years to organise. While some of the delay was not at EU level, it still took over 11 months to process at EU institutional level (see paragraphs 45 to 47).

Recommendation 3 – Make proposals to speed up the MFA approval process

The Commission should explore with its co-legislators the available options to accelerate the approval procedures of subsequent MFA programmes, particularly for emergency funding.

72

Sector Budget Support was paid out on a much smaller scale than general budget support. A credible sector strategy was not evident for two of the three programmes examined. The impact of the programmes was hampered by delays and general slow progress in the implementation of the required reforms (see paragraphs 48 to54).

73
Some significant projects were carried out but with many delays. In the absence of clear objectives and indicators, progress on many of these was difficult to assess. In many cases the projects were over ambitious and their timetable over optimistic. This led to an increase in overhead costs (see paragraphs 55 to 61).

Recommendation 4 – Improve the planning of projects

The Commission should, when planning future projects in Tunisia, establish clear objectives and indicators which are realistic in the particular circumstances of the project concerned.

This Report was adopted by Chamber III, headed by Mr Karel PINXTEN, Member of the Court of Auditors, in Luxembourg at its meeting of 14 February 2017.

For the Court of Auditors

Klaus-Heiner LEHNE
President

Annex I

List of Budget Support Programmes and Macro-Financial Assistance

(euro)

Number	Decision No	Decision year	Modality	Title	Allocated amount	Contracted amount	Paid amount
MFA	NA	2013	MFA	MFA	300 000 000	300 000 000	200 000 000
BS1	23143 and 23279	2011	BSP	Programme d'Appui à la Relance and Support for Partnership Reform and Inclusive Growth — SPRING (PAR1)	100 000 000	99 424 813	99 424 813
BS2	24074	2012	BSP	Programme d'Appui à la Relance (PAR 2)	68 000 000	67 339 484	65 415 314
BS3	24469	2013	BSP	Troisième Programme d'Appui à la Relance (PAR 3)	110 000 000	110 000 000	110 000 000
BS4	37533	2014	BSP	Progamme d'Appui à la Relance (PAR 4)	100 000 000	99 546 000	75 000 000
BS5	19508	2007	BSP	Programme d'Appui à la Gestion Budgétaire par Objectifs	30 000 000	29 267 989	29 267 989
BS6	21889	2010	BSP	Programme d'appui aux politiques publiques de gestion des ressources en eau pour le développement rural et agricole	57 000 000	56 067 853	24 623 541
BS7	18438	(2013)	BSP	Tunisie — PRAL — ex-Programme d'appui à la compétitivité (PAC I)	41 000 000	40 357 374	40 357 374

Annex II

List of projects

(euro)

Number	Decision No	Contract Year	Project	Contracted amount	Paid amount
PJ1	20216	2011	Mobilisation d'expertise court terme au profit des PME industrielles et des institutions tunisennes — Coaching technique et non technique	4 328 400	4 092 200
PJ2	20216	2011	Mobilisation d'expertise court terme au profit des PME Industrielles et des institutions d'appui — Qualité	6 170 540	5 575 780
PJ3	20216	2012	Acquisition et installation d'une chambre semi anechoîque pour essais de comptabilité electromagnétiques de dix metres avec cages annexes	1 179 590	1 179 590
PJ4	20216	2012	Acquisition et mise en place d'un laboratoire pour des essais de compatibilité Electromagnétiques	1 260 000	1 260 000
PJ5	22772	2015	Programme on Small Business Support in the services sector of Tunisia	10 000 000	1 982 210
PJ6	23202	2012	Projet de création d'emplois et accompagnement à la réinsertion en complétant les dispositifs de l'Etat en Tunisie	6 476 777	5 850 000
PJ7	23202	2012	Financement de la mise à niveau de quartiers populaires	8 000 000	7 900 000
PJ8	24409	2013	Financement de la mise à niveau de quartiers populaires en Tunisie	32 900 000	22 000 000
PJ9	23556	2013	Soutien à l'amélioration du système de justice des enfants en Tunisie	1 800 000	1 710 000
PJ10	23557	2013	Réhabilitation selon les standards internationaux de Tribunaux et établissements pénitentiaires avec une dotation de matériel informatique	12 848 749	12 206 312
PJ11	19073	2011	Renforcement des capacités institutionnelles en Tunise	1 461 000	1 314 652
PJ12	19073	2011	Assistance Technique pour le renforcement des capacités institutionelles de l'Institut Supérieur de la Profession d'Avocats	629 965	503 972
PJ13	23558	2013	Programe d'Appui à la Société Civile en Tunisie	3 399 228	2 604 875
PJ14	23569	2012	Appui au processus constitutionnel et parlementaire en Tunisie	1 809 778	1 364 907

Reply of the Commission and the EEAS

Executive summary

III

The Commission and the EEAS agree with the assessment of the quick response, but would like to stress that several areas had to be tackled because of the large number of socioeconomic needs/emergencies the Tunisian government was confronted with following the revolution. In this context, the EU was called on to assist Tunisia to respond to these needs which were a matter of political credibility as much as an operational necessity. Results obtained in the course of the period are good since the EU assistance contributed significantly to the country's economic and political stability after the revolution, notably by accompanying major socioeconomic and political reforms.

The Commission considers that assistance was therefore not diluted, but rather responded to the vast number of emergency reforms which Tunisia inevitably faced in the post-revolutionary period.

Moreover, it must be highlighted that all projects adopted since 2014 related to one of the three focal sectors enshrined in the single support framework (SSF) 2014-16 (socioeconomic reforms for inclusive growth, fundamental elements of democracy and sustainable regional and local development).

The Commission acknowledges that the Tunisian authorities may have encountered difficulties in managing all the assistance, due to the post-revolution context and frequent changes of governments and within the administration. However, it must also be emphasised that the absorption rate forEU projects is higher than that of other donors.

The joint programming process has been put on hold due to delays on the part of Government in formulating and adopting a new 5-year development plan. This will allow the EU to better align the programming exercise to the priorities included in the plan so as to enhance division of labour among donors, including Member States.

A joint programming mission took place in parallel to the EEAS/DG Neighbourhood and Enlargement Negotiations programming mission held on October 2016. A consultant is currently coordinating with all Member States and the joint programming exercise will likely be operational in 2017.

The EU's macro-financial assistance (MFA) provides balance-of-payments support to face Tunisia's acute external financing needs and in support of the financial assistance programme it has agreed with the IMF. This allows Tunisia to make the necessary economic adjustment less harsh and abrupt, and aims to contribute to restoring its economic sustainability. The MFA conditionality therefore addresses a number of priorities in several interlinked areas of structural reform, as a comprehensive approach to support an economic adjustment programme.

The Commission considers that its assistance to Tunisia, including its MFA, has been concentrated on a limited number of sectors. In addition, in several support areas (such as statistics, public finance management and good governance of the Court of Auditors) strong coordination with other donors and within different Commission services was crucial to add the MFA's added leverage for important reforms to be fully implemented.

V

In a context characterised by political instability it was essential to strike the right balance between quick impact measures and longer-term processes while using the tools offered by the Commission's Budget support policy. The instrument of a state building contract is a more flexible budget support modality specifically designed for fragile/post-crisis situations. While resorting to this more flexible modality in Tunisia, the Commission nevertheless strictly assessed the disbursement conditions for each of the four budget support programmes. Furthermore, the stabilisation of the situation and Tunisia's progress evidences the success of the operations as they were conceived and implemented. A more detailed analysis of this point is provided below, from paragraph 30 onwards.

The Commission confirms that the current ongoing PEFA assessment was in fact launched in 2014, thus 4 years after the last PEFA assessment. The current PEFA assessment encountered delays outside the control of the Commission, mainly due to methodological questions and their consequences. It should be highlighted that a new methodology for the PEFA exercise was reviewed in 2015. The new PEFA report for Tunisia is being finalised.

VI

The Commission underlines that a reform programme may not always be encapsulated within a single, comprehensive and coherent policy or strategy document. In such cases, the analysis is based on the different measures and on the reform process followed by the government to strengthen the system.

In the case of the sector budget support mentioned above, the Commission assessed the sector policies as complete, as well as relevant and credible. These sector budget support operations had been adopted before the revolution; later the programmes were adapted to the new situation to stabilise the results supported by the operations.

The Commission considers that late disbursements of MFA loans were not caused by slow implementation of the assistance, but were due to a combination of a number of factors. It took the Parliament and the Council more than 5 months to adopt the Commission proposal under the ordinary legislative procedure. Furthermore, the Tunisian authorities took more than 6 months to ratify the EU–Tunisia memorandum of understanding containing the MFA conditionality. The second disbursement was delayed due to the fact that Tunisia had not fulfilled all the conditions on time.

Introduction

09

The Commission considers that it is worth mentioning that when the MFA-I operation of EUR 300 million was adopted, in April 2014, it constituted the largest MFA ever provided to a country in the southern Neighbourhood, until a new MFA operation, also for Tunisia, of EUR 500 million was proposed by the Commission in February 2016, and adopted in July 2016. This second MFA aims to further support the economic transition, particularly in the wake of the 2015 terrorist attacks and their negative impact on economic activity.

Observations

20
The Commission underlines that PAR 1 was a multisectoral budget operation and PAR 2 to PAR 5 are state building contract operations.

22
The Commission points out that it has always acted in a timely manner whenever action was required on its side, amid a difficult political and security context. The Commission also notes that the action document of the SSR programme was finalised at technical level on 18 June 2015 (quality support group meeting), before the June 2015 terrorist attack. Several other actions in the field of security were also put in place during this period (regional projects, projects funded under the Instrument for Stability and the Instrument contributing to Stability and Peace, etc.) before or in parallel to the preparation of the SSR programme.

23
The Commission notes that in the first years after the revolution coordination among donors took place on basis of an economic recovery plan of the Tunisian authorities and of the governmental development letters. These documents led to several packages of donor financial support under the so-called Programmes d'Appui à la Relance (PAR), some of which even used a joint policy matrix. Subsequently, coordination among donors, including the EU through its budget support and MFA operations, was facilitated by the agreement between the IMF and the Tunisian authorities on a comprehensive programme of macroeconomic adjustment and structural reforms.

24
The Commission would like to stress that funds were not spread over too many areas and aid was sufficiently focused.

While EU aid indeed touched on a wide number of sectors, it did so, initially, in recognition of the vast challenges and needs Tunisia was facing in the post-revolutionary period. It also did so in response to specific demands for assistance by the Tunisian authorities at a time when the government badly needed international support. Indeed, between 2011 and 2013 'emergency operations' were adopted targeting essential services, supporting the democratic transition and accompanying the process of socioeconomic reforms.

However, once the situation appeared to progressively stabilise (roughly from 2014 onwards), the EU did strive to concentrate its assistance. This effort materialised in the single support framework for 2014-2016, which identified three sectors of intervention (socioeconomic reforms for inclusive growth, fundamental elements of democracy and sustainable regional and local development) in an effort to channel our assistance. These three sectors were systematically taken into account when designing annual action programmes in favour of Tunisia.

25
The Commission and the EEAS stress that their decisions did not lead to the dilution of funding and to difficulties of management. Delays and management difficulties were directly and primarily linked to external factors (i.e. political instability, difficult country economic situation).

The Commission underlines that MFA conditionality addresses a limited number of priorities in several interlinked areas of structural reform, as a comprehensive approach to support an economic adjustment programme. This should not be seen as a departure from the Commission's policy of concentrating its assistance on a limited number of sectors. In addition, in several support areas (such as statistics, public finance management and good governance of the Court of Auditors) strong coordination with other donors and within different Commission services was crucial for important reforms to be fully implemented.

26
The Commission notes that EU actions were well coordinated with Member States and the main international donors, but joint programming with the Member States was not achieved due to the late adoption of the national development plan. Coordination and close communication with Member States took place on a regular basis and was constructive.

28
The joint programming process has been put on hold in order to align the programming exercise to the 5-year development plan so as to enhance the division of labour among donors, including Member States.

A joint programming mission took place in parallel to the EEAS/DG Neighbourhood and Enlargement Negotiations programming mission held in October 2016. A consultant is currently coordinating with all Member States and the joint programming exercise will probably be operational in 2017.

29
The Commission notes that EU actions substantially assisted Tunisia but some minor shortcomings were found in the Commission's implementation of programmes.

The Commission would like to reiterate that the PAR1 programme was a multisectoral budget operation and PAR 2 to PAR 5 are state building contract operations. The difference in modality has consequences for the analysis of the programmes.

32
The Commission would like to stress that even though PAR3 and PAR4 were financed only by the EU, these programmes, and the measures defined therein, were coordinated with other donors.

33
The Commission would like to highlight the fact that the Programme d'appui à la relance 1 (PAR 1) was a multi-sector budget support and that subsequent PAR operations used the state building contract modality, which has been specifically designed to allow the EU to support partner countries in fragile/post-crisis situations.

While the state building contract modality used allows for some flexibility as outlined in the policy adopted in 2011, its implementation by Commission services has always been rigorous. Performance indicators used were defined following a lengthy and comprehensive policy dialogue process with the authorities. These indicators have allowed important reform processes to be brought forward in the course of the period under review. The urgency of the situation the EU had to respond to and the short-term nature of the modality chosen to implement the state building contracts should not be associated with an impression of 'flexibility' of the disbursement conditions.

The Commission underlines that it is possible and foreseen by the relevant Budget Support Guidelines to renew state building contracts, particularly when the transition to other budget support instruments is not yet feasible.

It is worth keeping in mind that the Budget Support Guidelines relating to state building contracts were new (2012) and the modality untested when they were first applied in a middle income country going through a huge political transition such as Tunisia. This Tunisian experience, confirmed also by the implementation of state building contracts in other countries, has led the Commission to a revision of the guidance concerning the duration of state building contracts and the possibility of adopting state building contracts in parallel to sector budget support operations. A revision of the budget support guidelines will document this lesson learnt.

34
The Commission states that, in a limited number of cases, indicators/measures were met before the signing of financing agreements. But this rather reflects the fact that Commission's lengthy administrative process leading to the adoption of financing decisions is not fitted for the sort of emergency operation the Commission and other donors (World Bank and African Development Bank) strived to put in place in Tunisia at the time to respond to a particularly unstable political and socioeconomic situation.

Indeed, those measures had been formally approved with the authorities many months before the signing of the financing agreement. However, between the time the measure was agreed and the time the financing decision was adopted by the Commission, the measure had indeed been adopted/implemented by the government. This success was also the result of an intense policy dialogue with the authorities and hence would not have taken place to the same extent or within the same timeframe in the absence of the budget support operations.

35
The financing decision presented to the Member States and the financing agreement signed with the Government of Tunisia clearly stated that the performance indicators for the second tranche would be identified during the second year of the programme. Such an arrangement is not in contradiction with the guidelines and is useful in volatile situations where a fully fledged programming over several years is difficult to formulate, such as in Tunisia in 2011 (i.e. with a caretaker government, impending elections).

36
The Commission draws attention to the fact that, while 'more for more funds' were not formally announced before May or June of year N+1, the Commission and the EEAS had already carried out an assessment of the situation in the various countries in the region and had a clear sense — quite early in the year (generally by January/February) — of the 'more for more' amount each country would be receiving. Therefore, when negotiating programmes and the matrix of indicators, the Commission's team kept some room for manoeuvre and factored in either additional programmes or in some cases a higher amount than the one officially available at the beginning of the negotiations.

37
The Commission emphasises that EU assistance was based upon the demands of the Tunisian authorities and needs were bilaterally discussed, agreed and assessed. The large number of measures included in PAR 1-3 needs to be viewed from the perspective of joint budget support operations, implemented by three budget support agencies, against financial commitments in excess of a billion dollars per operation.

Thus, taking into account the presence of several donor agencies (contributing with state-of-the-art expertise) and the important amount of these operations, the number of measures is actually close to the standard for such types of operations.

The PAR programmes benefited from high-level attention with regular Cabinet meetings dedicated to reviewing their implementation (this would not occur for a smaller programme) and it should be duly noted that the vast majority of these measures were met.

38
The Commission is of the view that the assessment of each of the PAR I-IV matrix conditions was done with equal rigour.

The Commission underlines that in application of the 2011 communication and the related 2012 Council conclusions on 'The future approach to EU budget support to third countries', a dynamic approach will continue to be applied to eligibility criteria. This approach was particularly adapted in view of the unstable political situation that was prevailing at the time and the use — for the first time in Tunisia — of a state building contract.

This approach is in line with the provisions of the Budget Support Guidelines on state building contract operations. This modality has been included in the 2012 budget support guidelines to be used during crisis, post-crisis and fragile situations. It is therefore a more flexible modality. Nevertheless the assessment of disbursement files by the Commission is as thorough as any other budget support modality.

It should be added that all but a few (fairly marginal) anticipated results were eventually achieved. Thus, the flexibility granted for PAR III and IV does not appear to have led to inferior results/impact in the medium term.

39
The Commission notes that implementation of some structural economic reforms continues to be slow or needs strong improvement whereas reforms accompanying the democratic transition have been more satisfactory. The adoption of results-oriented measures or indicators would not have been possible in the context of state building contracts of 1 to 2 years as is recalled in the Budget Support Guidelines, which foresee that 'performance indicators … will mainly be process indicators' (p. 99).

Complementary interventions in the form of technical assistance were ensured and thus supported the authorities in the drafting and adopting of legislation/regulations (or administrative procedures) necessary to operationalise a given law or decree. Thanks to the policy mix, most of the measures identified by the EU led to concrete results.

Just like in other post-revolutionary processes, profound political and institutional changes currently taking place in Tunisia will take time to produce their full results.

40

The Commission would like to stress that a rapidly evolving situation with an overburdened and ever-changing administrative and political situation (six Governments between 2011 and 2015) would have made the task of implementing a high-quality and objective evaluation particularly difficult to undertake during this period. In terms of evaluation methodology it would also have been too early to assess impacts.

The latest fully fledged evaluation of budget support operations took place in 2010. These evaluations are usually conducted over a 10-year span. It is necessary to take a step back in order to objectively assess the situation.

This said, an evaluation is being conducted by DG Neighbourhood and Enlargement Negotiations on programmes focusing on economic governance, which includes all the budget support programmes implemented in Tunisia except BS6.

Furthermore, the Commission monitored carefully outputs, outcomes and results during this period and made full use of instruments to assess the results of specific budget support measures, and also made use of various evaluations carried out by different international organisations.

41

The Commission would like to underline that the new PEFA assessment has been carried out following the newly adopted methodology by the PEFA Secretariat, which has resulted in several contradictory conclusions as regards 2010 PEFA assessment and delays in its approval by Tunisian authorities — delays which are outside the control of the Commission, the World Bank or the African Development Bank.

Nevertheless, the Commission confirms that the current ongoing PEFA assessment was in fact launched in 2014, thus 4 years after the last PEFA assessment was carried out and therefore in respect of internal budget support guidelines.

In addition to the PEFA, as a prior step to the decision to provide MFA support, the Commission carried out, in December 2013, a full and comprehensive operational assessment of the administrative and financial circuits of the Ministry of Finance and the Central Bank of Tunisia.

42

The Commission would like to stress that PEFA is a useful tool but it is not a mandatory obligation and furthermore requires the commitment and full cooperation of the country.

After 2011, Tunisia (and its partners) have benefited from a dozen high-quality assessments of the country’s public finance management system during the period under review, despite the absence of a recent PEFA. These assessments were conducted in the framework of Commission programmes and by independent organisations such as the IMF, the Organisation for Economic Cooperation and Development (OECD) and the Open Budget Survey.

These various assessments generated in-depth information on the different PFM dimensions (budget formulation, budget execution, accounting, procurement, internal and external controls, asset management, transparency, reform agenda, etc.).

Despite the PEFA being launched with some delays in 2014, its results are expected in early 2017 and will be used to assess PFM progress in the country.

43

The Commission would like to emphasise that in the circumstances Tunisia has been facing since 2011, with the important challenges the country had to respond to (political, economic, social, security related), Tunisia remains a model in the region. The transition process is a long and difficult one which will still require further important efforts from this partner.

(a)

The Commission is of the view that while challenges remain in some areas, the progress compared with the situation prevailing in 2011 has been unambiguously positive and sustained. The website for open budget of the Ministry of Finance is a good example of the huge efforts made in this regard (http://www.mizaniatouna.gov.tn).

Independent surveys of budget transparency or statistics dissemination (international budget survey for 2011 and 2015, a statistics dissemination website) now rank Tunisia as a leader in its income/regional country groupings.

The recent promulgation of an organic law on freedom of information, coupled with a vibrant civil society eager to already take advantage of these new rights, points to further progress in the years to come.

(b)

The EU's civil society support programme (PASC) contributed to resolving problems related to the establishment of 180 NGOs in the governorate of Tozeur. The programme entered into an agreement with the Tunisian government's services responsible for organisations to help applicant civil society organisations prepare their registration applications. In addition, the programme includes a technical assistance component to help the Tunisian authorities establish an IT-based system for the NGO department that could speed up the handling of files, including for the registration of NGOs.

(c)

While the implementation of reforms regarding public–private partnerships and public procurement has met fierce resistance from some quarters of the administration, all the related implementing regulations have been adopted and the effective implementation of the laws is starting in earnest. Early positive results are already starting to be registered, especially regarding public procurement, with the ongoing digitalisation of all procurement procedures.

With respect to external audit, the forthcoming adoption of an organic law granting full independence to the Court of Auditors (a PAR IV measure) is anticipated to mark a watershed in the conduct of external auditing in Tunisia. The Commission will continue to provide technical assistance to the Court to ensure that it fully seizes these new opportunities.

Regarding internal audit, some work remains to be done to rationalise the institutional framework. This is planned in the PAR V programme.

Reply of the Commission and the EEAS

(d)
The measures included in the PAR programmes were aimed at stabilising municipal finances, which were facing an unsustainable financing burden due to a sharp fall in local revenues after the revolution. They were followed with the 'Cap vers la décentralisation et le développement des territoires' programme (EUR 43 million) by a more structural approach in the context of decentralisation. But the latter could not have been implemented without the success of the former and prior to the political decision to embark on a decentralisation process.

(e)
Progress in terms of targeting beneficiaries has indeed been disappointing in spite of the EU, the IMF and the World Bank insistently calling on the authorities to act on it. This reflects deep-seated political difficulties in strengthening eligibility criteria for such programmes. Despite these setbacks, it is important to keep insisting on these reforms given their critical contribution to public finance sustainability. This continues to be done jointly by the IMF, the World Bank and the EU (MFA). However, it is expected that the new Social Identification Number database and the evaluation of the current social assistance programmes as well as the proposed scoring system will improve the targeting of these programmes.

(f)
The Commission considers that thanks to the disbursement conditions set in PAR-III budget support and donors' coordinated policy dialogue with Ministry of Finance a regulatory framework that is conducive to the development of microfinance is now in place in Tunisia. The latter has permitted the creation of seven microfinance institutions serving less developed unserved regions, including two (Microcred and Taysir) financially supported by the EU, AFD, EIB and EBRD. According to the latest annual reports of Microcred and Taysir, 7 684 microentrepreneurs have been served with financial and technical assistance services since operations started in 2015, of whom 4 205 are women and 3 338 are youth.

(g)
A new Investment law was adopted by parliament in September 2016 in the context of the preparation for the Tunisia 2020 Conference. This law, alongside recently adopted legislation on competition, bankruptcy and PPP, should make for a much-improved investment climate moving forward.

45
The Commission considers that it is important to note that before the first MFA disbursement can take place multiple procedural steps have to be taken. Before proposing an MFA operation, the Commission assesses the soundness of the financial circuits in the beneficiary country through an operational assessment which takes at least a month. As Commission proposals for MFA are subject to the ordinary legislative procedure according to Article 212 tfeu, they have to be adopted by the parliament and the council. After this adoption, a memorandum of understanding (MoU) containing MFA conditionality has to be approved by a Member State committee and signed by the beneficiary country. In addition, Tunisia had to ratify the MoU.

Subsequently, the funds for the disbursement have to be borrowed by the Commission on the markets, which normally takes about a month. For Tunisia, it has to be mentioned that 1 month was lost within the ordinary legislative procedure due to the fact that the approval by the Parliament plenary was shifted in the last moment to the April II plenary, which means that the Commission proposal took 5 months to be approved by the co-legislators. Furthermore, it has to be noted that the signature and ratification of the MoU by Tunisia had already taken more than 7 months.

47

The Commission considers that the MFA programme has been key to push forward much-needed reforms in Tunisia, in close coordination with other international donors and the government's own reform plans, particularly in a difficult transition environment. The new MFA programme brings the total MFA support to Tunisia to date to EUR 800 million and ensures the continuity of reforms while tackling a new set of measures that aim to support Tunisia's efforts to move towards a more sustainable economic model.

48

The Commission considers that eligibility criteria, including the implementation of a relevant and credible policy, have been met at the moment of the approval of each programme as well as before each payment.

In the cases mentioned of BS5 and BS6 the Commission notes that, as indicated by the Budget Support Guidelines, 'A reform programme may not always be encapsulated into a single, comprehensive and coherent policy or strategy document. In such cases, the analysis will be based on the different measures and reform process followed by the government to strengthen the system.' In application of the guidance that the Commission assessed the sector policies as complete, as well as relevant and credible.

49

The Commission would like to clarify that the three sector budget support programmes were adopted before the revolution, following eligibility criteria in place at that moment, whereas the state building contracts were adopted after the revolution to give a response to a completely new context that demanded a new approach and made Tunisia eligible for such an instrument. It should also be noted that the Commission is currently revising the budget support guidelines to allow for the adoption of state building contracts and sector budget support at the same time.

50

(a)

See reply to Box 3(a)

(b)

See reply to Box 3(b)

Box 3 — Cases of weaknesses found in the design of sectoral budget support programmes

(a)

The Commission partially agrees. At the time of project design, it proved difficult to measure the baselines for all indicators. Therefore, to address this situation, targets for certain indicators were expressed as absolute units of progress, rather than relative to baseline values.

With regards to the target on volumetric counters, it is worth noting that it represented a 10 % increase on the value of drillings with legal concessions, which was considered as significant. The over-achievement is due to the inclusion of volumetric counters for drillings for which a legal concession is not necessary (surface water or at low depths). For indicator D, there were major changes in the government recruitment policy after 2011 which could not be anticipated when the programme was designed. After two decades of conservative recruitment policy in the water sector, increased human resources could be assessed as a positive development.

When the programme was signed, in 2011, it was difficult to anticipate that the new government in place from 2012 would not prioritise the collection of fees on groundwater pumping, which was an objective for the previous government. This failure might be ascribed more to a change in political will than to the suspension of function by one unit.

(b)
The Commission points out concerning BS6 that for indicator D, there were major changes in the government recruitment policy after 2011 which could not be anticipated when the programme was designed. After two decades of conservative recruitment policy in the water sector, increased human resources could be assessed as a very positive development.

(c)
In the case of BS6 the Commission underlines that, as indicated by the Budget Support Guidelines, 'A reform programme may not always be encapsulated into a single, comprehensive and coherent policy or strategy document. In such cases, the analysis will be based on the different measures and reform process followed by the government to strengthen the system.' It is in application of this guidance that the Commission assessed the sector policies as complete, relevant and credible.

In the case of BS5 the Commission would like to highlight that this financing agreement was signed in 2008 under different conditions and practices. Nevertheless, for subsequent programmes and disbursements the Commission has thoroughly applied the Budget Support Guidelines.

51
The Commission stresses the fact that the matrix mentioned was developed by the Government as a summary description of the measures it intended to implement to restore the financial strength of Tunisian municipalities.

As part of the assessment of government strategy, the matrix provided the best available description of its detailed plan of actions.

As such, there was no a priori judgement that some measures were not going to be met but that as in all strategies, some measures may be more important than others (at least from the standpoint of the Commission). However, the assessment of the eligibility condition on public policy involves an evaluation of the overall Government plan of action, not only those actions deemed critical to the Commission.

The Commission further notes that in addition to the overall matrix of measures mentioned, the main three objectives of the programme – dramatically raise revenue, freeze the main driver of increased spending (recruitments) and increase the execution of local development investment projects – were captured by the performance indicators in the programme's second tranche.

With hindsight the rate of completion of these measures was particular high which suggests that the conditions were both relevant and feasible.

52
The Commission agrees but stresses that conditions were numerous (BS5) and particularly difficult for both programmes. For BS6, the programme's duration was extended from 72 to 96 months to respond to the difficulties faced by the new government, and in particular the Ministry of Agriculture, after the political events of 2011. The main objective of this extension was to ensure that the complementary measures for the smooth implementation of the programme could be put in place.

The pace of programme implementation was heavily dependent on exogenous factors related to the post-Revolution context.

53
The Commission agrees and notes that delays in contracting the technical assistance components of project BS5 and BS6 were duly justified by the complexity of the sectors supported and the need to engage into in-depth strategic and policy discussion in order to identify well the beneficiaries' needs based on proper assessments.

The Commission would like to clarify that though there was no technical assistance under BS7, technical assistance was provided in the framework of other ongoing programmes. The eligible contracting period according to financial regulations was elapsed by the time the programme content was reviewed, which prevented the contracting of additional technical assistance.

54
The Commission agrees and recognises that the legislative process has been rather slow since the revolution as Constitutional and other (e.g., security, corruption) priorities have taken precedent to matters such as budgetary legislation. The adoption of the law is anticipated during the first quarter of 2017.

It should be stressed, however, that significant progress has been registered in terms of budget procedures even before the passing of the law. As of today, 22 out of 26 ministries have adopted programme-budgets and include performance indicators related to their public policy objectives (in addition to budget data) in their budget submissions to Parliament.

The increase in the score given by the International Budget Survey underscores the improvements made in these areas.

In this context, the promulgation of the Budget law will mark the completion rather than the launch of this performance-based reform.

55
The Commission notes that half of the projects had no design weaknesses. On the other half, the Commission would like to make the following comments (see below):

(a)
The Commission would like to underline that objectives related to concerned projects were relevant, specific and measurable enough.

As regards PJ7 and PJ8, the Commission considers that '*l'amélioration des conditions de vie des populations défavorisées ou fragilisées socialement, par la réalisation d'infrastructures de base et d'équipements de proximité dans les zones urbaines defavorisées*' is a sufficiently relevant and specific objective that can be measured by the number of basic infrastructures and equipment provided to informal areas in the framework of the programme.

As regards PJ11, the Commission considers that the twinning programme objective in favour of the Tunisian Court of Auditors '*diagnostic et préparation de la réforme institutionnelle*' combined with detailed expected results and objectively verifiable indicators is specific and measurable.

Furthermore, the four objectives of PJ14 are considered by the Commission as highly relevant and specific in order to support the establishment of a modern, capable and well-functioning Parliament during the democratic transition period. Such objectives, linked with the expected results are sufficiently measurable.

(c)

The observation of the Court refers to a specific case (PJ13)for which explanations are detailed under point c) below.

Box 4 – Cases of design weaknesses in the projects reviewed

(a)

The Court refers to indicators set to measure the general objectives of the project. During the project implementation phase, indicators were slightly revised to better reflect the achievement of results.

(b)

The Commission would like to point out that the standard contribution agreement template does not request a logical framework. A result and resources framework, which is the equivalent of a logical framework, is annexed to the contract. The Commission therefore considers that there were indicators according to the appropriate format for projects under delegated management.

(c)

The Commission stresses that support to civil society in Tunisia was impossible before the revolution. Foreign funding was forbidden and civil society activities were very limited and under strict control of the Government. Therefore, there were no indicators available to assess this sector before 2011.

The indicators have been defined, according to the information available at that time, to help measure the degree of implementation of the activities.

The Commission notes that although the indicators are not very detailed, the project organised 435 dialogue/consultation workshops in the 24 governorates, 120 workshops with civil society organisations representatives and public actors, worked with 3,500 associations and created 36 association networks. It should also be noted that a thorough study on the situation of civil society in Tunisia was conducted by the EUD.

The final evaluation of the programme will take place in February 2017, and will allow for a thorough assessment of the impact of this ambitious programme.

In addition the Commission would like to highlight that this project is considered as a flagship project and an outstanding example in the whole neighbourhood South region.

56
The Commission notes that all the projects included documents, templates and the level of detail which is required in such cases.

The Commission underlines that the budget breakdown for project PJ 6, 7, 8 and 10, gives sufficient information to assess costs. The efficiency of the programme was assessed through a series of progress reports as defined in the contract.

57
The Commission would like to reiterate (as regards the added value of delegating the management of funds to the intermediary vs an indirect management by the concerned Tunisian public body) that the intermediary was at the time of adoption of the two projects the leading donor in the area of informal areas rehabilitation, and had been supporting the implementation of the Tunisian national rehabilitation programme for years. Administrative fees charged by the intermediary (2.9% of total funds engaged in both projects) are much lower than expenses related to the functioning of Project Management Units needed in case of indirect management.

Furthermore, the indirect management option would have been much more time consuming, leading to implementation delays since a learning period on EU rules and procedures would have been required to get the Tunisian beneficiary acquainted with them.

58
The Commission stresses that the extensions granted did not lead to any increase of total costs. These were 'no-cost extensions' as the overall budget of programmes cannot be increased.

No-cost extension may result in a redistribution of certain costs to the detriment of others but such aspects are part of the risks associated with operating in these environments. However, during negotiations of no-cost extension requests, the Commission makes every effort to ensure that any additional staff costs resulting from such extensions are kept to a minimum so as not to jeopardise the success of the project. The length of the Tunisian democratic transition was longer than expected in the immediate aftermath of the 2011 Revolution, when the projects sampled were signed.

59
As regards the impact and sustainability of results, the Commission would like to emphasize that the specific objective of PJ6, as stated in the Financing Agreement, was the creation of temporary jobs on the one hand and the improvement of the employability of low-skilled workers by providing vocational training on the other. The Commission considers both objectives as met. Furthermore, a second phase of the project has been adopted in 2016 (Integrated local development programme) with the same implementing partner. The latter will maximize impact and ensure sustainability of results.

As regards PJ7 and PJ8, the financial difficulties to ensure the maintenance of public infrastructure provided to informal areas will be tackled as well in the framework of the same new programme in preparation, where the development of a proper national strategy as regards the control and development of informal areas, including the maintenance of public infrastructure, is envisaged as one of the expected results.

60
The Commission would like to point out that the equipment supplied under projects PJ3 and PJ4 already benefitted export oriented Tunisian SMEs as it allows them to carry out in Tunisia the tests on products in compliance with EU rules at much lower costs than abroad. This resulted in reduced production costs and a subsequent increase in competitiveness vis-à-vis other producers.

The supply of this equipment is already having a positive impact in terms of access to the EU internal market for Tunisian SMEs, even if an Agreement on Conformity Assessment and Acceptance of industrial products (ACAA) is not yet concluded.

For PJ11, nearly all the activities planned had been implemented by the end of the twinning. Furthermore, given that the purpose of the twinning was to support the Tunisian Court of Auditors to prepare a draft organic law and reorganise its structure to implement the provisions of the law once adopted, the delays had no substantial impact.

Concerning PJ12, due to frequent changes of government and appointment of different Directors (4 in 3 years), all the legislation drafted within the project could not be implemented before the end of the project.

Conclusions and recommendations

63
In the first years after the Tunisian revolution, coordination among donors took place mostly on the basis of the so-called Programmes d'appui a la reliance (PAR), which supported the authorities' economic recovery plan, and, subsequently, on the basis of the IMF's comprehensive programme.

64
The Commission notes that several areas had to be tackled because of the socioeconomic challenges Tunisia was confronted with following the revolution. Results obtained so far are good since EU assistance contributed significantly to improve socioeconomic and political stability in the country after the revolution. The Commission stresses that it has followed its own policy of concentrating its assistance. Indeed, in spite of the fact that a variety of activities have been undertaken over the period under review, these were in line with the three main sectors identified in the SSF 2014-16.

As mentioned under point 43, the situation of Tunisia since 2011 and the important demands to support the transition process which followed the revolution in many different areas should be acknowledged. The EU had put into place all its available instruments to accompany Tunisia through this complex process, which led to the adoption of a new Constitution unanimously praised, and free and fair elections.

The EU's macro-financial assistance provides balance-of-payment support to help Tunisia face acute external financing needs and in support of the financial assistance programme it has agreed with the IMF. This allows Tunisia to make the necessary economic adjustment less harsh and abrupt, and aims to contribute to restoring its economic sustainability, which is a precondition for durable social development. The MFA conditionality therefore addresses a number of priorities in several inter-linked areas of structural reform, as a comprehensive approach to support an economic adjustment programme. The Commission considers that this is not a departure from the Commission's policy from concentrating its assistance on a limited number of sectors. In addition, in several support areas (such as statistics, public finance management and good governance of the Court of Auditors) strong coordination with other donors and within different Commission services was crucial to add the MFA's added leverage for important reforms to be fully implemented.

65

The Commission would like to emphasise that the joint programming process had been put on hold in anticipation of the presentation, by the Government, of its five-year development plan. The Commission and Member States' intention being to align the programming exercise to the five-year development plan, to improve division of labour and coordination.

The joint programming process will be resumed in 2017.

Recommendation 1 - Strengthen the programming and focus of the EU assistance

The Commission and the EEAS accept the recommendation.

(a)

The Commission and EEAS will continue to use political and policy dialogue to ensure that the Tunisian authorities adopt a comprehensive national development plan and specific reform strategies. These issues have been reiterated during Commissioner Hahn and HRVP Mogherini's visits to Tunisia and also during the visit of Tunisian President here in Brussels in November and December 2016.

(b)

The Commission and EEAS will prepare the Single Strategic Framework for 2017-20 according to the EU guidelines which require focusing its assistance on three priorities sectors in order to maximise the impact of its aid.

(c)

Joint Programming will be resumed in 2017.

68

The Commission states that, in a limited number of cases, indicators/measures were met before the signing of financing agreements. Indeed, those measures had been formally approved with the authorities many months before the signing of the financing agreement and were implemented by the Government at the time the financing decision was adopted by the Commission. This should be seen as success and as the result of an intense policy dialogue with the authorities and hence would not have taken place to the same extent or within the same time frame in the absence of the budget support.

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The EEAS and Commission agree on the need to work to anticipate the 'more for more' decisions.

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The Commission would like to stress that PEFA is a useful tool but it is not a mandatory obligation and furthermore requires commitment and full cooperation of the partner country. After 2011 Tunisia (and its partners), have benefitted from a dozen high quality assessments of the country's public finance management system. They were conducted in the framework of Commission programmes and by recognised organisations such as the IMF, the OCDE, Open Budget Survey. In addition, before providing MFA support, the Commission carried out, in December 2013, a full and comprehensive Operational Assessment of the administrative and financial circuits of the Ministry of Finance and the Central Bank of Tunisia. Therefore the Commission considers that comprehensive and relevant information was available and used.

The Commission confirms that the current PEFA assessment was launched in 2014 and will be finalised in 2017. Delays in finalizing it are due to methodological problems and outside the control of the Commission.

Recommendation 2 - Strengthen the implementation of EU budget support programmes
The Commission accepts the recommendation.

(a)
With today's more stable political context in Tunisia and in view of close coordination with other donors, the Commission agrees that the performance indicators can now be more focused for future operations. However, a dynamic approach will continue to apply to eligibility criteria, in line with budget support guidelines provisions. In the Tunisian context, individual measures were used as benchmarks to assess the Government's overall progress in implementing its national reforms programme (one of the four eligibility criteria) and this practice proved particularly efficient.

Concerning the last sentence that 'disbursements should be made conditional to the satisfactory completion of individual measures, rather than on overall progress', the Commission underlines that in application of the 2011 communication and related 2012 Council Conclusions on 'The Future Approach to EU Budget Support to Third Countries', this dynamic approach has to be applied to eligibility criteria. The Commission links disbursements to performance indicators negotiated and agreed with the partner Government only after all eligibility criteria have been met, demonstrating satisfactory overall progress in the implementation of the programme.

(b)
The Commission recognises the significance of the PEFA as a planning and monitoring tool, however the Commission underlines that the PEFA assessment cannot be unilaterally imposed on the partner Government. The Commission will nevertheless continue to collaborate with the partner Government to strive to carry out a PEFA assessment according to the recommended periodicity.

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The time period of 11 months between the Tunisian request for MFA and the signing of the Memorandum of Understanding (MoU) EU-Tunisia containing the MFA conditionality can be explained as follows.

Prior to the adoption of the Commission proposal for a MFA operation, the Commission did a comprehensive operational assessment of the soundness of the financial circuits in Tunisia to comply with the requirements of the EU Financial Regulation. The Commission proposal had then to be approved by the Parliament and the Council under the ordinary legislative procedure in accordance with Article 212 TFEU. Although the co-legislators managed to adopt the Commission proposal within 5 months without a Trilogue, one month was lost due to the fact that the approval by the Parliament plenary was shifted in the last moment to the April II plenary. After the adoption of the MFA operation, the negotiations on the draft MoU had to be finalised before the MoU had to be approved by a Member State Committee and could be signed by the EU in July 2014 (11 months after the Tunisian request). It then took the Tunisian authorities more than 6 months to ratify the MoU in March 2015. The first disbursement of MFA could be disbursed soon after the ratification in May 2015, whereas the second disbursement could only take place in December 2015 due to a lack of compliance by the Tunisian authorities with MFA conditionality.

Recommendation 3 - Make proposals to speed up the MFA approval process

The Commission accepts the recommendation.

The Commission notes that, even though significant progress has been achieved regarding the speed of the adoption by the Parliament and the Council of MFA decisions, there is still room for improvement. More speedy adoptions could be achieved for instance if the number of meetings of the Committee on International Trade of the European Parliament (INTA) before an INTA vote could be reduced, if the Parliament approval would systematically take place at the plenary (including mini-plenaries) immediately following the INTA vote, if mini-plenaries could be used for the signatures by the Presidents of the Parliament and the Council and if the Council would also make use of the written procedure for adoptions if necessary.

The Commission also notes that, following previous recommendations by the Court of Auditors and a Resolution on MFA of the Parliament in 2003, it had proposed in 2011 a Framework Regulation for MFA aimed, inter alia, at expediting decision-making by replacing the legislative decisions by implementing acts. However, as the co-legislators decided to retain legislative acts and the ordinary legislative procedure, the Commission withdrew this proposal in 2013.

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The Commission stresses that the extensions granted did not lead to any increase of total costs. These were 'no-cost extensions' as the overall budget of programmes cannot be increased.

No cost extension may result in a redistribution of certain costs to the detriment of others but such aspects are part of the risks associated with operating in these environments. However, during negotiations of no cost extension requests, the Commission makes every effort to ensure that any additional staff costs resulting from such extensions are kept to a minimum so as not to jeopardise the success of the project. The length of the Tunisian democratic transition was longer than expected in the immediate aftermath of the 2011 Revolution, when the projects sampled were signed.

Recommendation 4 – Improve the planning of projects

The Commission accepts the recommendation.

Event	Date
Adoption of the Audit Planning Memorandum/Start of audit	1.3.2016
Official sending of draft report to Commission (or other auditee)	1.12.2016
Adoption of the final report after the adversarial procedure	14.2.2017
Commission's (or other auditee's) official replies received in all languages	2.3.2017

We assessed whether the EU assistance delivered to Tunisia after the Arab Spring revolution of 2011 has been well spent. We concluded that the money was generally well spent as it contributed significantly to the democratic transition and the economic stability of Tunisia after the revolution.
Nevertheless, a number of shortcomings were identified in the EU management of the assistance. In order to address these shortcomings, the Court makes recommendations for the European External Action Service and the Commission that concern the focusing of the assistance on a small number of sectors, strengthening the implementation of the budget support programmes, and finally, improving the planning of the programmes and speeding up their implementation.

40 CURIA RATIONUM 1977 - 2017
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