



# Tunisia Country Strategy

## 2018-2023

as approved by the Board of Directors on 12 December 2018



**European Bank**  
for Reconstruction and Development

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## Glossary of Key Terms

<b>ABI</b>	Annual Business Investment	<b>IPPF</b>	Standards Infrastructure Project Preparation Facility
<b>AML/CFT</b>	Anti Money Laundering / Counter-Terrorist Financing	<b>LCY</b>	Local Currency
<b>ASB</b>	Advice for Small Business	<b>M&amp;A</b>	Mergers and Acquisitions
<b>BEEPS</b>	Business Environment and Enterprise Performance Survey	<b>M&amp;S</b>	Manufacturing & Services
<b>CoOs</b>	Countries of Operations	<b>MSME</b>	Micro, Small and Medium Enterprise
<b>COP21</b>	2015 United Nations Climate Change Conference	<b>NDC</b>	Nationally Determined Contribution
<b>CSR</b>	Corporate Social Responsibility	<b>NPL</b>	Non-Performing Loans
<b>CwA</b>	Compact with Africa	<b>ONAS</b>	Office National de l’Assainissement
<b>EE</b>	Energy Efficiency	<b>PFI</b>	Private Financial Institution
<b>EIB</b>	European Investment Bank	<b>PPA</b>	Power Purchase Agreement
<b>ESIF</b>	Early Stage Innovation Facility	<b>PPP</b>	Private-Public Partnership
<b>ETI</b>	Expected Transition Impact	<b>PTI</b>	Portfolio Transition Impact
<b>EU</b>	European Union	<b>RSF</b>	Risk Sharing Facility
<b>E&amp;S</b>	Environmental & Social	<b>SEFF</b>	Sustainable Energy Financing Framework
<b>FDI</b>	Foreign Direct Investment	<b>SEMED</b>	Southern and Eastern Mediterranean
<b>FI</b>	Financial Institution	<b>SNCFT</b>	Société Nationale des Chemins de Fer Tunisiens
<b>FINTECC</b>	Finance and Technology Transfer Centre for Climate Change	<b>SOB</b>	State-Owned Bank
<b>GEFF</b>	Green Economy Financing Facility	<b>SOE</b>	State-Owned Enterprise
<b>GET</b>	Green Economy Transition	<b>STEG</b>	Société Tunisienne de l’Electricité et du Gaz
<b>GHG</b>	Greenhouse Gas	<b>TC</b>	Technical Cooperation
<b>GoT</b>	Government of Tunisia	<b>TFP</b>	Trade Finance Programme
<b>GVC</b>	Global Value Chains	<b>VCCP</b>	Value Chain Competitiveness Programme
<b>H&amp;S</b>	Health & Safety	<b>VCIP</b>	Venture Capital Investment Programme
<b>ICA</b>	Industry, Commerce & Agribusiness	<b>WiB</b>	Women in Business programme
<b>IFI</b>	International Financial Institution		
<b>IFRS</b>	International Financial Reporting		

# Executive Summary

Tunisia is committed to and applying the principles of multi-party democracy, pluralism, and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank.

Tunisia's political transition, since the 2010/2011 revolution has been inclusive of all political currents in the country, and anchored on two rounds of presidential and parliamentary elections, in 2011 and 2014, that were free and fair. Tunisia's 2014 Constitution reflects the population's post-revolution aspirations. Over the past four years, since the parliamentary election, the executive has consistently demonstrated its adherence to and respect for the Constitution. And the country's political system is increasingly entrenching real checks and balances between different powers. Rights are generally respected in Tunisia. These achievements took place amidst volatile developments in the region and serious security challenges in the few years that followed the revolution.

However, the successful political transition has opened up the country's political economy to acute differences on the economic direction the country ought to take. The differences are healthy and demonstrate plurality and freedom of expression. Yet beyond the progressive building of a pluralistic democracy, the Tunisian population has yet to see the promise of tangible economic benefits materialise, and while a fairly ambitious economic reform agenda was designed by Tunisian authorities (Tunisia 2020) to address macroeconomic imbalances and boost growth, the much slower than anticipated pace of reform has weakened Tunisia's economic performance over the last few years, and led to growing macroeconomic vulnerabilities.

As a consequence, much remains to be done to address some of the most pressing issues weighing on Tunisia's aspiring new growth model, such as unleashing the private sector and promoting economic opportunities for all. In particular, Tunisia still faces substantial challenges in its transition to a sustainable market economy, where the private sector can thrive and create quality jobs for the cohorts of educated youth entering the labour market over the next several years. Transition gaps are particularly acute in **competitiveness** (with an economy characterised by significant state interference in key sectors), **inclusion** (with large regional disparities and significant segments of the population underserved and not participating in the labour market), **resilience** (with distortive lending practices and high levels of NPLs), and **green** (with increasing vulnerability to climate change, water stress and other resource inefficiencies).

Operating in the country since 2012, in the wake of the Revolution, the EBRD is well positioned to help mobilise much-needed private investment in the country, contribute to implementation of the Tunisia Development plan, and support reform efforts for job creation and inclusive growth through tailored policies and financial instruments. Given the challenging political economy, the Bank will seek to focus both on reform opportunities with substantial short-term benefits in terms of their potential to attract investment and sustain growth, as well as build capacity to address more long-term structural reform issues.

The Bank will pursue the following strategic priorities in Tunisia in 2018-2023:

- Support Tunisia's **Competitiveness** by Opening Markets, Strengthening Governance, and Levelling the Playing Field;
- Promote Economic **Inclusion** for Women, Young People and Populations Living in Remote Areas Through Private Sector Engagement;
- Strengthen **Resilience** of the Financial Sector and Broaden Access to Finance; and
- Support Tunisia's **Green** Economy Transition.

# Tunisia - EBRD Snapshot

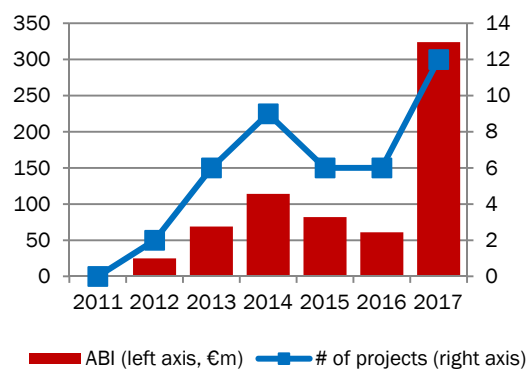
## EBRD Investment Activities in Tunisia (as of June 2018)

Portfolio	€585m	Active projects	31
Equity share	9%	Operating assets	€321m
Private Sector Share <sup>1</sup>	61%	Net cum. investment	€700m

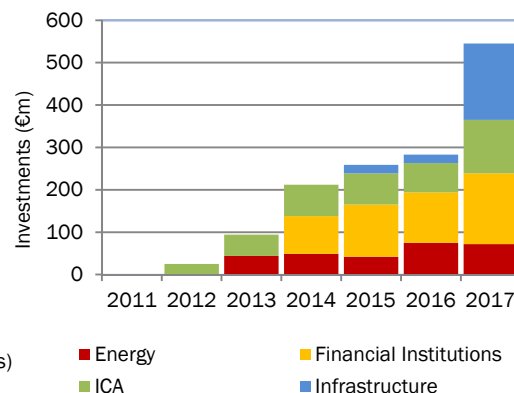
## Tunisia Context Figures

Population (million) <sup>3</sup>	11.4	2017
GDP per capita (PPP, USD) <sup>3</sup> <i>For comparison: Egypt (11,583), Jordan (9,153), Morocco (8,217)</i>	11,910	2017
Global Competitiveness Index (WEF)	95 <i>(out of 137)</i>	2017
Unemployment (%) <sup>4</sup>	15.2	2016
Youth unemployment (%) <sup>4</sup> <i>For comparison: Egypt (34.4), Jordan (39.8), Morocco (17.8)</i>	35.8	2017
Female labour force part. (%) <sup>4</sup> <i>For comparison: Egypt (23.9), Jordan (14.8), Morocco (26.8)</i>	27.1	2016
Energy intensity (TPES/GDP) <sup>5</sup> <i>For comparison: Egypt (0.32), Jordan (0.29), Morocco (0.17)</i>	0.23	2015
Emission intensity/GDP (kgCO <sub>2</sub> /10'\$) <sup>5</sup> <i>For comparison: Egypt (0.80), Jordan (0.79), Morocco (0.48)</i>	0.53	2015

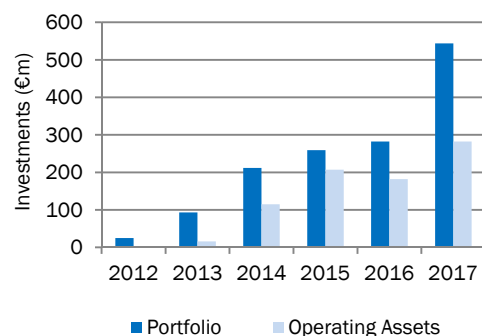
## ABI and Operations



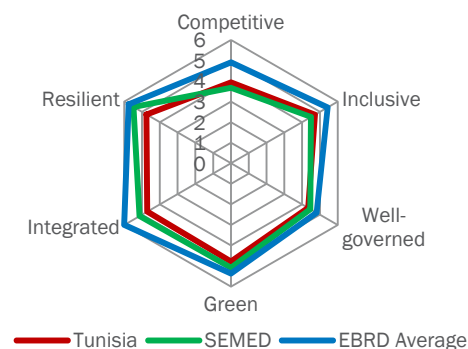
## Portfolio Composition



## Portfolio Dynamics



## Transition Gaps <sup>2</sup>



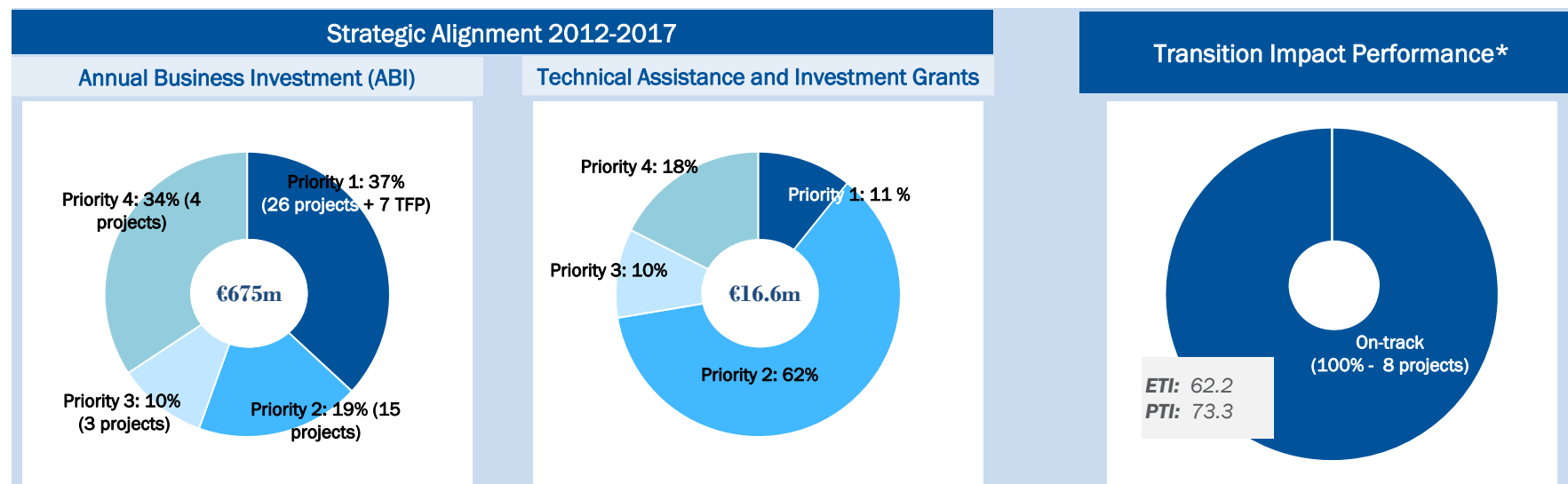
<sup>1</sup> Cumulative Bank Investment: 5 year rolling basis on portfolio.

<sup>2</sup> Cf. EBRD Transition Report 2017-2018. <sup>3</sup> World Bank WDI. <sup>4</sup> International Labour Organisation (estimates). <sup>5</sup> IEA's Energy Atlas.



# 1. Implementation of Previous Engagement (2012-2017)

## 1.1. Key Transition Results Achieved during Previous Engagement



### Priority 1: Restructuring and strengthening the financial sector

Results Indicators	2017		Since 2013	Key Transition Results
	2017	Since 2013		
Growth of outstanding portfolio by PFIs to SMEs (weighted average growth year-on-year)	+12%	+15%		<ul style="list-style-type: none"> <li>Facilitated access to finance for small businesses through 15 credit lines (€210m) for banks, and leasing and microfinance institutions dedicated to MSME (under the EU Initiative for Financial Inclusion since late 2016). Provided 7 trade finance facilities and trained 70 trade finance professionals.</li> <li>Contributed to developing local currency finance through active policy engagement: first IFI to lend in LCY in 2015, MOU on LC framework signed in 2016 (2 credit lines in Tunisian Dinar provided to microfinance and leasing institutions).</li> <li>Supported development of the non-bank financial sector, through a review of the legal framework for factoring, and advisory on responsible and sustainable pricing in the microfinance sector.</li> <li>Actively promoted capital market development: (i) advised on modelling of a dynamic sovereign benchmark yield curve reflecting market activity, (ii) launched comprehensive review of the legal and regulatory framework for capital markets, and (iii) provided support for modernisation of clearing &amp; settlement infrastructure.</li> <li>Contributed to building resilience of the banking sector:                             <ul style="list-style-type: none"> <li>Provided assistance to Central Bank, in coordination with IMF, on preparation of law and decree creating a Deposit Guarantee Fund (decree issued and management appointed in 2017).</li> <li>Supported improvements in regulatory framework for NPL resolution (debt collection law, implementation of insolvency law, e.g. legal framework of insolvency holders profession).</li> <li>Policy advocacy for restructuring of key state-owned banks.</li> </ul> </li> </ul>
Regulatory framework improved (insolvency)	Good progress			

\* Transition impact performance reflects how likely projects are to achieve the transition impact that was expected of them at signing. Calculated based on active mature portfolio (older than two years).

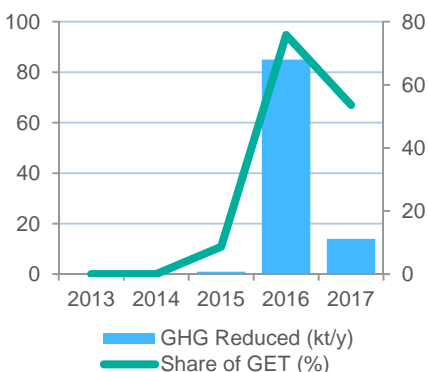
# 1. Implementation of Previous Engagement (2012-2017)

## 1.1. Key Transition Results Achieved during Previous Engagement

### Priority 2: Financing Private Enterprise

Support for Small Business			Key Transition Results
<b>Results Indicators</b>	<b>2017</b>	<b>Since 2013</b>	<ul style="list-style-type: none"> <li>Supported <b>competitiveness improvements</b> of private firms:                             <ul style="list-style-type: none"> <li>✓ Development of <b>olive oil sector value chain</b> through (i) four loans to Borges, Sovena and IFFCO for a combined €43m to expand operations, including bottling, and deepen supplier relationships, and (ii) policy engagement alongside FAO, with focus on organisation, value chain and innovation in the olive oil industry.</li> <li>✓ Contributed to further integrate Tunisia into <b>global aerospace and automotive value chains</b>, through €15m senior loan to Figeac Aero (leading Airbus supplier) to finance expansion of subsidiaries in Tunisia with youth inclusion focus (30-40 young technicians p.a trained), and €6.2m loan to leading German automotive supplier Draexlmaier.</li> <li>✓ Facilitated <b>internationalisation of software company</b> Vermeg, by providing finance for two high-demonstration effect M&amp;A operations, in Belgium and UK (listed company) for a combined €30m.</li> <li>✓ Supported development of <b>healthcare sector</b>, through regional loan to Hikma Pharmaceuticals, and equity investment alongside Abraaj in a regional hospital platform.</li> <li>✓ Contributed to development of <b>private equity sector</b> in Tunisia, through seven equity investments (combined €50m) in funds managed by AfricInvest, Mediterranean Capital, Abraaj and Capital North Africa Venture.</li> </ul> </li> <li><b>Deployed and expanded Advice for Small Business</b> (2<sup>nd</sup> largest recipient country for ASB advisory services in 2017), with a total of 660 projects, incl. 60% outside of Tunis, leveraging Sfax satellite office opened in 2016.</li> <li><b>Supported implementation of electronic public procurement system for SMEs</b> (TUNEPS), through development of new procedures for registering, pre-qualifying and engaging local SMEs in public bidding for small value contracts, and training programmes delivered to 1000 SME suppliers and 900 procurement officers.</li> </ul>
ASB projects productivity increase	+15.2% (+57% in 2016)	+29%	
Legal framework improved (public procurement)	Very good progress		

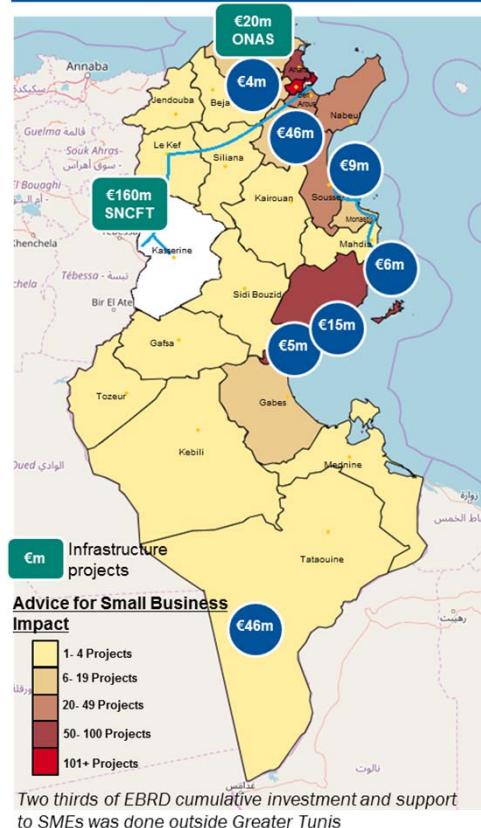
### Priority 3: Supporting energy efficiency and a sustainable energy sector infrastructure

Green Economy Transition	Key Transition Results																		
 <table border="1"> <caption>Green Economy Transition Data (2013-2017)</caption> <thead> <tr> <th>Year</th> <th>GHG Reduced (kt/y)</th> <th>Share of GET (%)</th> </tr> </thead> <tbody> <tr> <td>2013</td> <td>~1</td> <td>~1</td> </tr> <tr> <td>2014</td> <td>~1</td> <td>~5</td> </tr> <tr> <td>2015</td> <td>~10</td> <td>~15</td> </tr> <tr> <td>2016</td> <td>~85</td> <td>~75</td> </tr> <tr> <td>2017</td> <td>~15</td> <td>~65</td> </tr> </tbody> </table>	Year	GHG Reduced (kt/y)	Share of GET (%)	2013	~1	~1	2014	~1	~5	2015	~10	~15	2016	~85	~75	2017	~15	~65	<ul style="list-style-type: none"> <li><b>Supported launch of private sector renewable programme</b> by providing advice to the Ministry of Energy on tender documentation, and actively advocating bankability of the Power Purchase Agreement (PPA) with all key stakeholders: PM, Ministry of Energy, power utility (STEG), labour unions, local banks.</li> <li><b>Provided continuous support for financial and operational improvements of state-owned power company (STEG)</b>, incl.             <ol style="list-style-type: none"> <li>Investment of €46.5m to strengthen electricity distribution network in the country's north-east and preparing the grid for renewable energy, supported by a TC package to advance commercialization of STEG (focused on compliance, financial reporting, trading risk, and demand forecasting).</li> <li>Launched energy efficiency audits of STEG oldest power plants and issued recommendations for improvements (with potential for subsequent EBRD investment).</li> </ol> </li> <li><b>Supported further development of small private independent oil and gas operators</b> in Tunisia by providing €46m financing (subsequently restructured) to Serinus Energy for the development of four oil and gas fields in Tunisia.</li> </ul>
Year	GHG Reduced (kt/y)	Share of GET (%)																	
2013	~1	~1																	
2014	~1	~5																	
2015	~10	~15																	
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# 1. Implementation of Previous Engagement (2012-2017)

## 1.1. Key Transition Results Achieved during Previous Engagement

### Priority 4: Facilitating non-sovereign financing for infrastructure



### Key Transition Results

- Supported **improvement in the PPP regulatory framework** through evaluation of the draft PPP Law (approved in 2015 for non-concession types of PPPs), and legal review of the 2008 Concession Law, with the view to encourage private participation in infrastructure projects.
- Supporting **depollution of Bizerte Lake**, improvement of wastewater services and long-term operational and financial sustainability of state-owned waste water operator ONAS, through a €20 million loan & TCs to support expansion and rehabilitation of three existing wastewater treatment plants and rehabilitation and extension of the sewage network, improving wastewater services for an estimated 400,000 inhabitants in the Bizerte Governorate. This project is part of a €90m package, together with EIB, NIF and the Republic of Tunisia. Slow progress, due to technical complexity of the project and large number of stakeholders (loan not disbursed yet).
- Supporting **development of green railways** and regional inclusion through €160m loan to public railway company SNCFT to upgrade and renovate two key routes in Tunisia's railway infrastructure and enhance the network's capacity and performance. The project will help:
  - decrease vehicle traffic on the highway network by 10 million vehicles per kilometre per year by 2021 and reduce CO2 emissions by 14,000 t. pa, and
  - better integrate the (less developed) north-west and centre-west governorates with the capital.
- Slow progress on providing finance for infrastructure projects on a non-sovereign basis**, due to hitherto limited political will until recently to launch infrastructure and energy projects under PPP structures. However, promising PPP pipeline identified.

# 1. Implementation of Previous Engagement (2012-2017)

## 1.2. Challenges to Implementation and Key Lessons

**Context for implementation:** Since the start of the Revolution in 2011, Tunisia has undergone a comparatively smooth political transition despite a challenging regional geopolitical environment and strenuous fiscal pressures. While challenges continue to exist in the political landscape and the country is not wholly immune from security risks, Tunisia's most pressing issue lies in transitioning towards a sustainable economic growth model, away from a legacy of vested interests and crony capitalism towards an open, transparent and competitive economy where the private sector can thrive and create quality jobs for its sizeable, educated youth. Yet, Tunisia's reform trajectory has been compounded by a complex political economy set-up, socio-economic pressures and a lack of resources in the public sector to carry through reform implementation. These challenges, compounded by slow growth, have provided headwinds to the Bank's initial engagement. Nevertheless, since starting operations in 2012, the EBRD has been on an accelerated path, growing a mid-size but high quality portfolio, to become today the largest IFI in the private sector.

### Implementation Challenges

- Differences among key stakeholders hinder consensus-building and slow down pace of economic reforms.
- Challenging regional security situation (now improving) resulted in a drop in FDIs and economic slowdown, impacting potential clients' investment plans.
- Limited political will until recently to launch infrastructure and energy projects under PPP structures, compounded by wide availability of IFI concessional finance for sovereign projects.
- Lack of bankable opportunities in corporate and SME sector, results in high competition for most creditworthy borrowers, with under-pricing practices by local banks.
- Some gaps in administrative capacity to implement reforms and carry through public sector projects.
- Challenges to scale EBRD's local currency lending offer as a result of regulatory constraints.

### Key Lessons & Way Forward

- Long-term policy engagement around key reform priorities, including through partnership with key social partners and close IFI coordination. Need to focus on low hanging fruits / high impact reforms (e.g. private sector participation in renewables, and some infrastructure projects).
- Continue to support marketing of Tunisia as an attractive investment destination, with improving security situation and strong sectorial assets (in particular mechanical industries, agribusiness, pharma, and ICT).
- Pursue joint IFI reform advocacy of the shared benefits of increased private sector participation in key sectors (e.g. renewable energy, infrastructure), in a context of increasing public debt.
- Leverage co-investment grants and TC to selectively improve competitiveness of EBRD products, and focus on opportunities where EBRD brings additional value beyond pricing, such as attracting foreign direct investment, supporting internalisation of domestic companies and helping SMEs scale.
- Complement public sector investments with institutional capacity-building, e.g. reform support, project preparation and implementation (IPPF).
- Continue to work with Central Bank on improving EBRD access to local currency, to broaden its reach across SMEs and non-exporters.



## 2. Economic Context

### 2.1 . Macroeconomic Context and Outlook for Strategy Period

#### Tunisia - Main macroeconomic indicators

	2014	2015	2016	2017
GDP growth (% y-o-y)	2.3	1.1	1.0	1.9
CPI inflation (% avg.)	4.9	4.9	3.7	5.3
Government balance (% of GDP)	-5.0	-4.8	-6.1	-6.1
Current account balance (% of GDP)	-9.1	-8.9	-8.8	-10.3
Net FDI (% of GDP)	-2.2	-2.2	-1.5	-2.0
External debt (% of GDP)	63.7	68.5	74.7	83.8
Gross reserves (% of GDP)	17.6	17.8	15.4	14.2
General government gross debt (% of GDP)	50.8	55.4	61.9	69.9
Unemployment (% pop)	15.0	15.2	15.5	15.4
Nominal GDP (\$bn)	47.6	43.2	42.1	40.6

- **Since 2011, average growth has been low** compared to pre-2011 levels (1.5 per cent on average compared to 4.5 per cent between 2001 and 2010). In 2017, the economy grew by 1.9 per cent, driven by the recovery of the strategic sectors of agriculture, phosphate, and tourism.
- **Macroeconomic vulnerabilities worsened in 2017 and the first quarter of 2018.** In April 2018, inflation increased to 7.7 per cent, its highest level in over 26 years; reserves declined to critical levels, covering less than 3 months of imports; and the dinar depreciated by 22 per cent compared to a year earlier.
- **The pace of fiscal consolidation is constrained by the social sensitivity of cost-cutting measures** such as reducing the wage bill (currently one of the highest in the world) and subsidies. As a result, public debt increased to 70 per cent of GDP.
- **The external position worsened in 2017**, as the current account deficit widened to double-digit levels for the first time. This is the result of tourism receipts and worker remittances only partially offsetting the widening in the trade deficit.
- **In 2018, growth is expected to slowly pick up to 2.7 per cent**, driven by continued recovery in tourism and investment, stronger growth in major export markets in Europe and the implementation of structural reforms. However, social tensions and election-related uncertainties still present a risk for production and investment and hamper the implementation of reforms.
- **Performance under the IMF programme has been unequal.** In March 2018, the IMF completed the 2<sup>nd</sup> review of the IMF-supported reform programme, 3 months after reaching a staff-level agreement on the completion of the review.

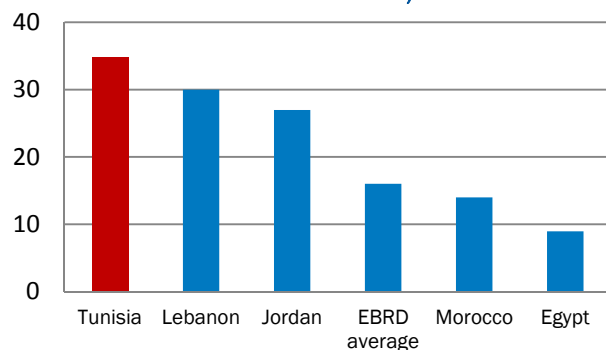
## 2. Economic Context

### 2.2 . Key Transition Challenges

#### Competitive (4.00)

- **Dominance of SoEs in certain key sectors** creates barriers to competition. In 2017, the World Bank's Doing Business Report ranked Tunisia 88th out of 190 countries.
- Measures to **reduce barriers to entry** are being taken, but are not yet fully implemented.
- **Export capacity is relatively well developed.** 30.2 per cent of firms are directly engaged in exporting, well above the EBRD average.
- Tunisia ranks **43<sup>rd</sup> out of 80** countries in the 2018 **Bloomberg Innovation Index**, making it the most innovative economy in Africa and the Arab world.
- **Economic complexity<sup>1</sup>** has increased significantly, although it still lags behind upper-middle-income peers.

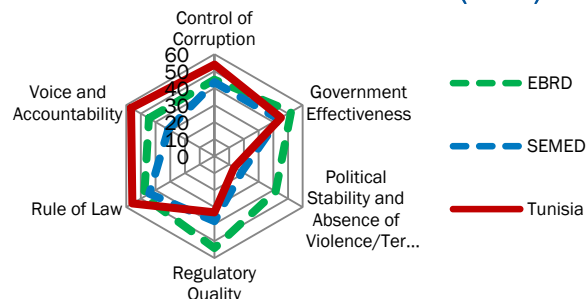
Percentage of firms directly exporting (at least 10% sales)



#### Well-governed (4.33)

- According to the WEF GCR, the top three most problematic factors for doing business relate to **weak governance**, namely inefficiency of government bureaucracy, corruption, and policy instability.
- **The pace of reform implementation remains slow.** The World Bank estimates that the state's bureaucracy represents a significant tax on businesses.
- **Corruption and cronyism** are major obstacles for business. Firms reported paying on average 2.7 per cent of total annual revenue in informal payments or gifts to public officials, above SEMED and EBRD region averages.
- SOEs suffer from problems related to their **corporate governance** and incur financial losses. A **level playing field** is not guaranteed among all market players, resulting in distortions and economic losses.

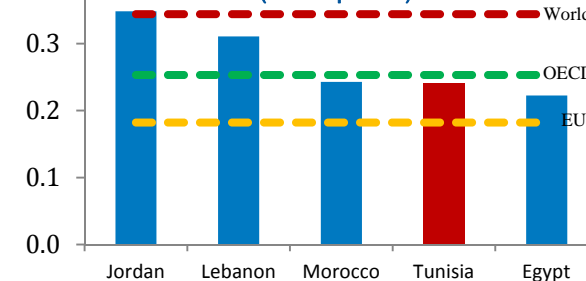
Worldwide Governance Indicators (2016)



#### Green (4.78)

- For the past twenty years, **energy and carbon intensity (CO<sub>2</sub>/TPES) have been slowly decreasing**, largely attributed to a fuel-switch from oil to natural gas in energy production, but energy consumption has more than doubled between 1994 and 2015.
- **Comprehensive RE and EE regulatory frameworks** have been set up, but there is a lack of institutional capacity and dedicated entities monitoring the effective implementation.
- **Private sector participation in RE and EE is limited to date**, partially due to the weight of STEG, limited political will so far to open the sector, and lack of access to finance.
- **Tunisia is highly exposed to climate threats** and will require integrated water resources management particularly in the agribusiness sector.

CO<sub>2</sub> emissions in kg per PPP GDP (2011 prices)



<sup>1</sup> Economic complexity reflects the product range Tunisia produces competitively.

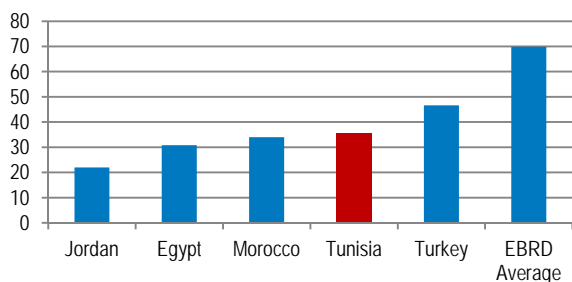
## 2. Economic Context

### 2.2 . Key Transition Challenges

#### Inclusive (4.72)

- **Gender gaps in Tunisia are smaller compared to the SEMED region, but significant nonetheless.** The labour market participation rate stands at 24 per cent for women, compared to 71 per cent for men.
- **Distortive economic policies have amplified regional imbalances.** Poverty and unemployment rates in the southern part of the country are 10 per cent higher than the national average.
- **Youth unemployment and youth inactivity are of serious concern.** Tunisia experiences one of the highest rates in SEMED of youth that are not in education, employment or training (NEET), estimated at approximately 33 per cent.
- **Rigid labour market regulations** negatively affect labour productivity.

Female Labour Force Participation (%)

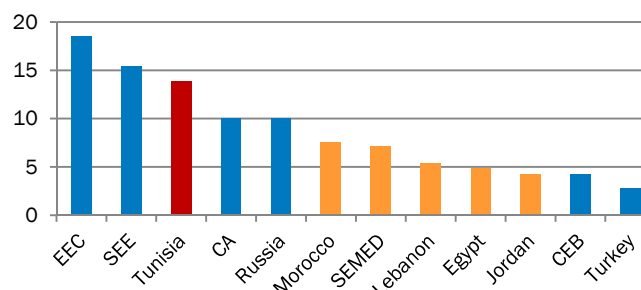


Source: ILOSTAT (2017 data for 2016)

#### Resilient (4.75)

- **Tunisia's attempts at reforming the banking sector remain incomplete.** Despite some progress in resolving NPLs, they are still high at 13.9 per cent of total loans in 2017 (highest in SEMED).
- **The financial inclusion rate is 36 per cent,** leaving much room to cater to underserved enterprises and individuals.
- **State-owned banks** suffer from weak governance, poor asset quality, inadequate collateral valuations, and higher exposure to some sectors.
- In the absence of alternative financing sources, banking challenges and the cap on lending rates limit **access to finance**.
- **Tunisia's dependence on oil and gas imports,** coupled with its lack of a suitable energy supply framework, creates risk of shortages.

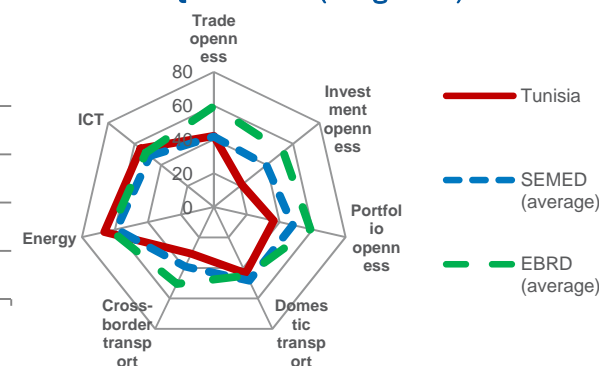
Non-Performing Loans (% of total loans)



#### Integrated (4.70)

- **Tunisia's infrastructure and logistic quality are poor, in particular in the port sector.** EBRD's Transition Report 2017–18 forecasts that Tunisia would need to spend 23.8 per cent of GDP on infrastructure to catch up with advanced economies, maintain existing and build new infrastructure over 2018–22.
- So far, there have been delays in bringing key pieces of infrastructure under **PPPs** such as ports and roads.
- Port infrastructure and services hinder the participation of local businesses in **GVCs**.
- **Capital controls** on re-transfer of funds and capital income and restricted access to FX constitute a heavy constraint for companies investing in Tunisia and for the **internationalisation of Tunisian companies**.

ATQ Indicators (Integration)



# 3. Government Priorities and Stakeholder Engagement

## 3.1. Government Reform Priorities

The **2016-2020 Tunisia Development Plan** supports efforts to introduce a new development model aimed at boosting annual real GDP growth to 4% and cutting unemployment to 12% by 2020. It comprises the following five pillars:

- **Public administration reform and anti-corruption for improved governance:** Keeping public sector debt below 70% of GDP by reducing the cost of subsidies, cutting the public sector wage bill and reforming the pension system, fighting corruption and restructuring loss-making SOEs.
- **Human development and social inclusion:** Supporting economic inclusion for vulnerable groups such as youth and peripheral regions, by providing financial support for struggling SMEs and addressing skills mismatches for young graduates.
- **Higher added-value activity:** Enhancing the attractiveness of Tunisia as an international investment destination as well as for domestic operators, by improving the business climate and easing regulatory, administrative and financing constraints facing businesses (e.g. exchange regulations, authorisation processes).
- **Mitigation of regional disparities:** Upgrading existing and developing new transport infrastructure to encourage regional mobility, connectivity and external trade, with a focus on port, logistics and transport projects, including through public-private partnerships.
- **Development of a green economy:** Investing in renewable energy and supporting resource efficiency solutions across sectors.

The introduction of **key structural reforms** is expected to stimulate both foreign investment and more inclusive growth in the country, provided the security context does not regress.

## 3.2. EBRD Reform Areas Broadly Agreed with Authorities

- Increased **private sector participation in the economy**, including small business support and internationalisation of local firms.
- Improved **economic governance**, incl. through public-private dialogue.
- Support **PPP solutions** and increased private sector participation in infrastructure where appropriate.
- Improved. **commercialisation of SOEs** and corporate governance improvements.
- Enhanced **financial and economic inclusion of youth and lagging regions**, including through SME support, microfinance and innovative technologies.
- Support for **policy engagement in financial sector** (incl. NPL, DGF) and capital market sectors development.
- Improved **energy efficiency and green economy** solutions, including regulatory support for renewables and energy efficiency.

## 3.3. Key Messages from Civil Society to EBRD

- EBRD's investment projects should pay particular attention to **environmental and social standards** and good governance best practice.
- EBRD should play a key role in policy reforms in the country, particularly in areas such as **economic and financial inclusion of disadvantaged groups** (women and youth) and women's economic empowerment.
- EBRD is well placed to address issues around public procurement and **governance of major projects** by encouraging public consultations with local communities and civil society organisations
- EBRD is well placed to channel into the domestic economy new and **innovative technologies**, especially for the benefit of small businesses, and should play a key role in raising awareness on the Green Economy Transition.

# 4. Defining Tunisia Country Strategy Priorities

What needs to change? (Section 2)	Can it be changed? (Section 3)	What can the Bank do? (Section 4)	Strategic Priorities (2018-2023)	What We Want to See in 2023
<ul style="list-style-type: none"> <li>Concentration of resources in low productivity segments in the private sector, with limited integration into global value chains.</li> <li>Challenging business climate suffering from excessive regulatory constraints and weak enforcement of competition.</li> <li>Sectorial barriers to entry and SOE dominance in key sectors limit domestic competition.</li> <li>Capital controls constrain outward FDI and internationalisation of Tunisian firms.</li> </ul>	<ul style="list-style-type: none"> <li>Government economic reform momentum but implementation capacity needs to be strengthened.</li> <li>DCFTA as external anchor to raise export standards and further GVC integration.</li> <li>Momentum on PPP is building up, with focus on transport, logistics, energy and municipal infrastructure.</li> <li>Recent Government's SOE strategy to improve corporate governance.</li> <li>Some recent steps to alleviate certain constraints related to capital controls.</li> </ul>	<ul style="list-style-type: none"> <li>Well-tailored products to support SMEs and corporates (local currency financing, value chain programs, advisory network).</li> <li>Established track record in supporting internationalisation of Tunisian firms and catalysing FDI.</li> <li>Good experience in facilitating public-private dialogue on investment climate issues.</li> <li>Strong track record in supporting privatisations and SOE commercialisation.</li> </ul>	<p><b>Support Tunisia's Competitiveness by Opening Markets, Strengthening Governance, and Levelling the Playing Field</b></p>	<ul style="list-style-type: none"> <li>Move to higher value-added activities, through greater integration of Tunisian companies into global value chains, and improved operating standards</li> <li>Improved economic governance and greater competition</li> <li>Increased private sector participation in some state dominated sectors and SOE commercialisation</li> </ul>
<ul style="list-style-type: none"> <li>Skills-mismatches among young graduates coupled with lack of quality employment.</li> <li>Rigid labour market regulations, leading to informality and low-skilled jobs.</li> <li>Strong regional disparities, with interior regions poorly integrated and lagging behind in economic growth.</li> <li>Low female labour market participation in global comparison (albeit among highest in SEMED).</li> </ul>	<ul style="list-style-type: none"> <li>Social inclusion highlighted in 2020 Development Plan.</li> <li>Heightened awareness to support private sector-led job creation, limit the public sector wage bill and carry out labour market reform with trade unions.</li> <li>Ongoing decentralisation process, incl. strengthening local governance.</li> <li>Tunisia perceived as regional role model for women's emancipation.</li> </ul>	<ul style="list-style-type: none"> <li>Effective instruments to support underserved segments (ASB, WiB, SEMED Youth Employment Programme).</li> <li>Well-tested model of linking private sector investment and TC grants to promote skills-enhancing programmes.</li> <li>Can leverage office in Sfax, and extensive investment and advisory portfolio outside Tunis.</li> </ul>	<p><b>Promote Economic Inclusion for Women, Young People and Populations Living in Remote Areas Through Private Sector Engagement</b></p>	<ul style="list-style-type: none"> <li>Enhanced access to entrepreneurship and skills for young people</li> <li>Reduced regional disparities in terms of access to employment, skills, services and finance</li> <li>Increased gender equality in access to economic opportunities</li> </ul>
<ul style="list-style-type: none"> <li>Shallow financial system, with limited access to finance, esp. for SMEs and women entrepreneurs.</li> <li>Strong state dominance in the banking sector, with high NPL concentration, weak governance.</li> <li>Some provisions in regulation distorts banks' incentives to lend.</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing (albeit slow) government reforms to address banking sector vulnerabilities (SoBs governance, interest rate cap, NPLs, insolvency).</li> <li>Legacy of banking sector distortions – incl. state-directed lending and loan directives to support target sectors.</li> </ul>	<ul style="list-style-type: none"> <li>Wide range of dedicated products to encourage lending to underserved segments.</li> <li>Expertise in improving SOB governance and designing NPL resolution solutions.</li> <li>Strong track record in capital markets development.</li> </ul>	<p><b>Strengthen Resilience of the Financial Sector and Broaden Access to Finance</b></p>	<ul style="list-style-type: none"> <li>Broader access to finance, in particular to under-served segments</li> <li>Improved governance of the financial sector</li> <li>Deeper capital markets as a viable alternative to banking sector for long-term finance</li> </ul>
<ul style="list-style-type: none"> <li>STEG dominance in the energy sector (incl. in nascent renewables sector) and distortive energy subsidies.</li> <li>Inefficient use of energy / resources and a low share of renewables.</li> <li>High level of water stress and vulnerability to climate change (e.g. agribusiness).</li> </ul>	<ul style="list-style-type: none"> <li>Government commitment to deliver on NDCs under COP21.</li> <li>Significant renewables potential, particularly solar and wind.</li> <li>Recent momentum around private sector participation in renewables, with two rounds of tender launched.</li> </ul>	<ul style="list-style-type: none"> <li>Extensive experience advising SEMED countries on bankable investment framework for renewables.</li> <li>Dedicated products to finance green transition investments (e.g. tailored credit lines, Green Cities framework, Sustainable Transport programme), with good access to grant funding.</li> </ul>	<p><b>Support Tunisia's Green Economy Transition</b></p>	<ul style="list-style-type: none"> <li>Increased RE capacity, more diversified energy mix and greater private sector participation in the energy sector</li> <li>Increased energy, resource and water efficiency</li> <li>Reduced carbon emissions through greener transport and municipal infrastructure to support Tunisia's COP21 commitments</li> </ul>



# 5. Activities and Results Framework

## Priority 1: Support Tunisia’s Competitiveness by Opening Markets, Strengthening Governance, and Levelling the Playing Field

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Move to higher value-added activities, through greater integration of Tunisian companies in global value chains, and improved operating standards	<ul style="list-style-type: none"> <li>• Provide direct and indirect financing and advisory to corporates and SMEs for competitiveness improvements with a focus on agribusiness (e.g. olive oil), light manufacturing, technology and tourism, as well as improvements of operating standards for SMEs within a value chain (VCCP).</li> <li>• Provide support to domestic companies for regional integration and internationalisation (focus on Europe, North and sub-Saharan Africa) through direct financing as well as dedicated ASB programme for exporters, and advocate gradual easing of capital controls for international expansion.</li> <li>• Finance in-bound FDI, with a focus on global value chains and innovation transfers.</li> <li>• Support rehabilitation and development of new capacity in the congested port and logistics sectors.</li> </ul>	<ul style="list-style-type: none"> <li>• No of ASB clients reporting increased productivity/exports</li> <li>• No and volume of investments that improve integration into regional/global value chains - via improved standards, quality of products</li> </ul>
Improved economic governance and greater competition	<ul style="list-style-type: none"> <li>• Support Tunisian Investment Authority (e.g. set up a public – private consultation function to address domestic and foreign investors issues, E-Service Delivery to investors, evaluating convergence of investment promotion entities).</li> <li>• Work with economic regulators and enforcement authorities to help strengthen economic governance (e.g. implementation of 2016 Investment Law, 2015 Competition Law).</li> <li>• Support generalisation of electronic platform for public procurement in line with best international practice, and promote increased SME participation.</li> </ul>	<ul style="list-style-type: none"> <li>• Legal/institutional/regulatory improvements to increase competition</li> </ul>
Increased private sector participation in some state dominated sectors and support SOE reform	<ul style="list-style-type: none"> <li>• Support SOE commercialisation (financial, operational and corporate governance improvements), through policy advice and investment.</li> <li>• Advocate and finance opening up of competitive state dominated sectors (e.g. renewable energy, some legacy monopolies) to private sector participation.</li> <li>• Facilitate privatisations (e.g. confiscated assets, selected banks), including through pre-privatisation investments and corporate governance improvements, if requested by GoT</li> <li>• Promote private sector participation (through e.g. PPP/PSP, Concessions, IPP solutions), with focus on power, transport, and municipal services.</li> </ul>	<ul style="list-style-type: none"> <li>• No of clients implementing commercialisation/restructuring</li> </ul>



# 5. Activities and Results Framework

## *Priority 2: Promote Economic Inclusion for Women, Young People and Populations Living in Remote Areas Through Private Sector Engagement*

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Enhanced access to entrepreneurship and skills for young people	<ul style="list-style-type: none"> <li>Develop innovative skill-enhancing solutions together with corporate clients (focus on manufacturing and tourism sectors) and roll-out SEMED Youth Employment Programme (supporting quality internships and on-the-job trainings with local enterprises).</li> <li>Support technology start-ups through advice (ASB) and selective financing (ESIF, VCIP), as well as explore capacity building for business accelerators, to leverage high engineering and ICT graduates potential, and provide legal advice on developing a fintech regulatory framework.</li> <li>Support private sector-led review of skills curriculum and vocational education and training, with initial focus on exporting sectors.</li> </ul>	<ul style="list-style-type: none"> <li>No of youth receiving new/improved skills as a result of training</li> <li>Number of technology start-ups supported</li> </ul>
Reduced regional disparities in terms of access to employment, skills, services and finance, and progress in decentralisation	<ul style="list-style-type: none"> <li>Provide direct and intermediated finance for projects building competitive advantage in regions outside of Greater Tunis,</li> <li>Continue to develop majority of business advisory for SMEs in the regions outside of Greater Tunis, leveraging the Sfax satellite office, with focus on exporters, services, agribusiness and craftsmanship.</li> <li>Support upgrade and development of regional infrastructure, with a focus on inland regions (railway, roads, urban transport, power, water and sanitation) in line with Tunisia's 2020 Development Plan.</li> </ul>	<ul style="list-style-type: none"> <li>No of people benefitting from improved/increased access to infrastructure</li> </ul>
Increased gender equality in access to economic opportunities	<ul style="list-style-type: none"> <li>Roll out Women in Business programme (access to finance, business advisory services, training to PFIs, networking and mentoring for women-led SMEs).</li> <li>Promote gender responsive service delivery in MEI and transport projects.</li> <li>Promote women's access to employment through equal opportunities components, and supply chain interventions in corporate and SME projects.</li> <li>Conduct gender responsive investment climate assessment, and based on results, seek to address remaining barriers women face in accessing employment (incl. through entrepreneurship) and finance, in the context of the WIB programme and other investments.</li> </ul>	<ul style="list-style-type: none"> <li>No of women-led businesses accessing finance and/or advisory services</li> <li>No of clients with improved gender practices (equal opportunities and inclusive procurement)</li> </ul>



# 5. Activities and Results Framework

## Priority 3: Strengthen Resilience of the Financial Sector and Broaden Access to Finance

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Broader access to finance, in particular to under-served segments	<ul style="list-style-type: none"> <li>• Provide dedicated credit lines and risk sharing frameworks to partner banks to encourage lending to SMEs, as well as other underserved segments (e.g. women entrepreneurs, energy efficiency).</li> <li>• Support development of the non-banking financial sector (leasing, microfinance and factoring) through funding products, as well as policy advisory on legal and regulatory framework (e.g. microfinance pricing and refinancing, factoring law).</li> <li>• Scale up Trade Finance Programme.</li> </ul>	<ul style="list-style-type: none"> <li>• Number/volume of SME sub-loans (or other segments, e.g. WiB) provided by PFIs</li> </ul>
Improved governance of the financial sector	<ul style="list-style-type: none"> <li>• Advocate restructuring and improved corporate governance of state-owned banks, including through potential pre-privatisation equity investment, if GoT's decides to consider reducing its equity share in the banking sector.</li> <li>• Support new Deposit Guarantee Fund, through advisory on governance and operating structure, and consider provision of EBRD stand-by credit line.</li> <li>• Support NPL resolution efforts, through policy advisory on regulatory framework (e.g. new Debt Collection Law, legal framework for insolvency office-holders).</li> <li>• Build capacity on AML/CFT issues in the banking sector .</li> </ul>	<ul style="list-style-type: none"> <li>• Legal, institutional or regulatory framework improved (NPL resolution)</li> </ul>
Deeper capital markets as a viable alternative to banking sector for long-term finance	<ul style="list-style-type: none"> <li>• Support modernisation of Tunisia's capital market infrastructure (e.g. Central Securities Depository for clearing and settlement).</li> <li>• Support review of the legal and regulatory framework for capital markets (1994 Law) and implementation of key reforms.</li> <li>• Explore investments in corporate and FI bonds and listed equity, and when appropriate facilitate IPOs of EBRD investees.</li> </ul>	<ul style="list-style-type: none"> <li>• Volume of capital markets transactions facilitated</li> </ul>



# 5. Activities and Results Framework

## Priority 4: Support Tunisia’s Green Economy Transition

Key Objectives (Outcomes)	Activities (Outputs)	Tracking Indicators
Increased renewable energy capacity, more diversified energy mix and greater private sector participation in the energy sector	<ul style="list-style-type: none"> <li>Provide financing for Tunisia renewable energy programme (wind and solar), and support the domestic SMEs renewable energy value chain through advisory services and co-financing grants</li> <li>Policy engagement to increase private sector participation in the renewable energy sector, through advisory on the investment framework (e.g. bankable PPA).</li> <li>Provide finance for medium-scale oil &amp; gas operators, with a focus on private sector operators and gas flaring reduction investments.</li> <li>Support network upgrade for the integration of renewable energy through smart metering / smart grid systems, regional interconnection and storage capacity.</li> </ul>	<ul style="list-style-type: none"> <li>Total Renewable electricity installed (MW)</li> </ul>
Increased energy, resource and water efficiency	<ul style="list-style-type: none"> <li>Provide direct investments to resource-intensive sectors (e.g. building materials industry, build environment) and energy and resource efficiency credit lines to partner banks, and support sustainability across value chains.</li> <li>Develop and finance supply-side resource efficiency solutions (e.g. upgrade of STEG existing power plants, high efficiency conventional gas-fired power generation, gas and electricity transport and distribution, transmission modernisation).</li> <li>Support water preservation efforts through modernisation of water infrastructure (distribution, irrigation and wastewater/sanitation), and work with clients on developing water efficiency solutions (focus on agribusiness and power sectors).</li> </ul>	<ul style="list-style-type: none"> <li>Energy saved (GJ/y)</li> <li>Total Water saved (m3/y)</li> </ul>
Reduced carbon emissions through greener transport and municipal infrastructure to support Tunisia’s COP21 commitments	<ul style="list-style-type: none"> <li>Finance development of green and sustainable transport solutions (e.g. railway, ports, logistics zones, intermodal terminals), and storage facilities for energy products.</li> <li>Provide financing for municipal investments targeting resource efficiency, as well as capacity building to municipalities to prioritise their resource efficiency investments (Green Cities Framework).</li> </ul>	<ul style="list-style-type: none"> <li>Total CO2e reduced/ avoided (ton/y)</li> </ul>



# 6. Mapping of International Partners Complementarity in EBRD Business Areas

EBRD BUSINESS AREAS																							
		Sectors											Cross-Cutting Themes										
		Corporate				Energy		Infrastructure			Financial				Green Transition		Inclusion						
Indicative average investments/grants (€m, 2014-2017)		Agribusiness	General Industry	Property & Tourism	ICT	Natural Resources	Electric Power	Water & Wastewater	Urban Transport	Roads	Railways	Banking	Insurance & financial services	MSME Finance	Private Equity	Capital Markets	Water Efficiency	Materials Efficiency	Sustainable Energy	Gender	Youth	Region	
WB	453	€						€		€		€					€					€	
EIB	404		€		€	€	€	€	€	€		€	€	€	€								
AfDB	289	€						€		€		€	€	€									€
AFD	255							€	€			€	€	€			€		€		€	€	€
EU	207	€	€	€	€									€			€		€	€	€	€	€
GIZ & KfW	187	€					€	€	€					€			€					€	€
IsDB	142					€		€				€											
IFC	30	€	€									€											
EBRD	145	€	€	€			€	€	€			€	€	€	€		€		€	€	€	€	€

€	Area of significant investments	P	Area of significant policy dialogue	●	Focus mostly on private sector	○	Focus mostly on public sector
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## Areas for future cooperation

### Economic governance

- Work with EU, WB, IFC and the CwA to promote investment climate and good governance reforms.

### Public-private partnerships (PPPs)

- Leverage CwA and IMF EFF, and work closely with IFC to progress PPPs.
- Partner with IFC, GiZ, AfDB and Proparco, to support reforms and co-financing of renewables.

### State-Owned Enterprises reform

- Leverage IMF EFF and WB / AFD budget supports to advance SoE reforms.

### Banking sector reform

- Partner with IMF, WB and IFC to strengthen the resilience of the banking sector.

### Priority infrastructure

- Co-finance transport, muni infrastructure and energy priority projects with EIB, AfDB, AFD and KfW, blending EU NIF grants when appropriate.

Note: IFI activity mapping based on publicly available information – excluding budget support. Significant IFI investment defined as projects exceeding 5% of investment signed between 2014-2017. \* No public figures found online for JICA.



# 7. Implementation Risks, Environmental and Social Implications

Risks to the Strategy Implementation	Probability	Effect	Environmental and Social Implications
<ul style="list-style-type: none"> <li>▪ <b>Fragile social consensus as well as potential tensions resulting from the adoption of structural reforms</b> (e.g. removal of subsidies) could further slow down reform process, in particular in relation to opening of key sectors (energy, infra) to private sector investment.</li> </ul>	●	●	<ul style="list-style-type: none"> <li>▪ <b>Assessment and Management of E&amp;S Impacts, Stakeholder Engagement:</b> Ensure that direct, indirect, cumulative and transboundary E&amp;S impacts of projects are appropriately assessed and mitigated, meaningful stakeholder engagement is carried out. Consider environmental and social capacity building to ensure adoption of best international practice.</li> <li>▪ <b>Labour and Working Conditions:</b> Ensure that clients' HR policies and labour practices comply with EBRD requirements, address minimum wages and labour conditions requirements; potential discrimination, and promote equal opportunities.</li> <li>▪ <b>Resource Efficiency and Pollution Prevention and Control:</b> Develop capacity building initiatives in waste management sector; identify and develop water resources efficiency projects and technical assistance initiatives as part of the GET mandate. Explore potential capacity building and policy dialogue initiatives on Best Available Techniques for industrial pollution prevention and abatement in line with the EU Industrial Emissions Directive.</li> <li>▪ <b>Health and Safety:</b> Improve occupational and community health and safety with specific focus on activities which are considered common accidents reported on the Bank's projects. Additional emphasis will be placed on road safety by raising awareness within communities at risk.</li> <li>▪ <b>Land Acquisition, Involuntary Resettlement and Economic Displacement:</b> Ensure that any projects requiring acquisition of land comply with compensation and livelihood restoration requirements of the Bank, with special attention on informal land users and vulnerable groups.</li> <li>▪ <b>Biodiversity Conservation and Sustainable Management of Living Natural Resources:</b> Ensure robust biodiversity assessments of projects to minimise potential impacts, especially on areas rich with biodiversity.</li> <li>▪ <b>Cultural Heritage:</b> Work with clients to identify potential cultural heritage issues on Bank's projects as well as avoid and mitigate impacts on sensitive heritage by consulting with key stakeholders in accordance with the Bank's Policy. TC activities may be considered to mitigate any identified risks and explore utilising cultural heritage for economic and community enhancement.</li> <li>▪ <b>Financial Intermediaries:</b> Ensure that FI partners have adequate E&amp;S capacity and risk management procedures in place.</li> <li>▪ <b>Monitoring and supervision:</b> Work with clients to monitor E&amp;S performance and address legacy issues associated with the Bank's portfolio.</li> </ul>
<ul style="list-style-type: none"> <li>▪ <b>Challenging business environment and weak investor appetite</b>, deterring foreign investors and increasing credit risk profile of potential clients.</li> </ul>	●	●	
<ul style="list-style-type: none"> <li>▪ <b>Volatile regional security</b> situation could undermine investor confidence.</li> </ul>	●	●	
<ul style="list-style-type: none"> <li>▪ <b>Lack of resources in the public sector</b> could delay reform implementation as well as critical large-scale sovereign projects.</li> </ul>	●	●	
<ul style="list-style-type: none"> <li>▪ Insufficient progress on <b>addressing banking sector consolidation and lending distortions</b> could slow down EBRD's lending volumes.</li> </ul>	●	●	
<ul style="list-style-type: none"> <li>▪ <b>Scale up in concessional finance</b>, in both public and private sector, would undermine further marketability of EBRD financial products.</li> </ul>	●	●	

# 8. Donor Co-Financing Assessment

## 8.1. Donor Co-Financing Needs Assessment

Donor funding will be required to achieve the strategic objectives, including support for:

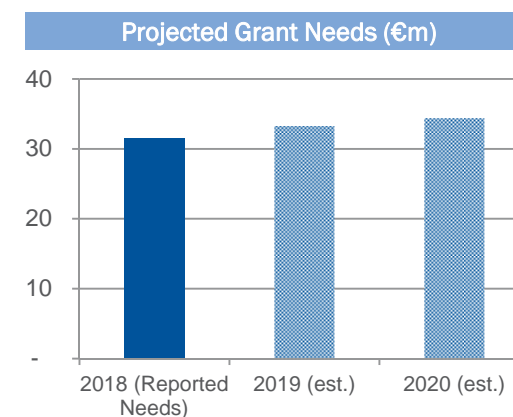
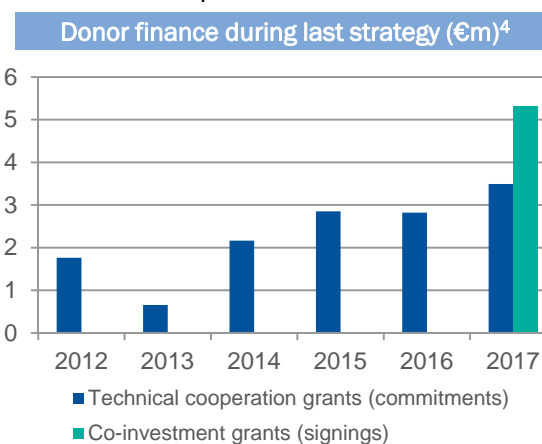
- Fostering Green Economy Transition through PFIs under the EBRD's Green Economy Financing Facility .
- Making financial sector more resilient through capacity building and legal and regulatory reforms.
- Improving interconnectivity in regional infrastructure and energy sectors. TC funding will be needed for project preparation and implementation, particularly, to support better governance, corporate development and operational efficiency.
- Promoting private sector and SME development, e.g. in the agribusiness sector.
- TC funding will be required to integrate economic inclusion component in the EBRD projects.

## 8.2. Potential Sources

- Donor support will be channelled through the SEMED Multi-Donor Account under the general window.
- EBRD Small Business Impact Fund and SME Local Currency Special Fund will continue to support SME development in Tunisia.
- The EU will remain an important source of concessional funding under the Neighbourhood Investment Platform (NIP) South for supporting infrastructure development, SMEs, promoting socioeconomic development, addressing climate challenges, and promoting good governance and rule of law. Tunisia is also eligible for funding under the new EU External Investment Plan (EIP).
- Funding can be available from Green Climate Fund and Global Environment Facility to support projects under EBRD Green Economy Transition Initiative.
- EBRD will further explore opportunities to access the funding from bilateral donors.
- The EBRD Shareholder Special Fund will remain an important grant provider.

Selected Affordability Indicators		
		EBRD regional percentile rank <sup>1</sup>
GDP per capita (PPP, current int. \$) <sup>2</sup>	11,634	28 <sup>th</sup>
ODA Country	YES	N/A
ODA as share of Gross National Income (%) <sup>3</sup>	1.55	32 <sup>nd</sup>
ODA disb. per capita (USD - current prices) <sup>3</sup>	55.0	36 <sup>th</sup>

Sources: <sup>2</sup> IMF (2016), <sup>3</sup> OECD (2016)



1. Simple percentile rank reported as the share of EBRD countries (ODA CoOs in the case of ODA indicators) that are represented below Tunisia.

4. 2012-2015 TC data is based on Commitments as of the end of March 2016 (the latest available date before data migration to a new Donor Funds System). 2016-2017 TC data is based on earmarks at the project level<sup>20</sup>

*ANNEXES*

# Annex 1 – Political Assessment in the Context of Article 1

Tunisia is committed to and applying the principles of multi-party democracy, pluralism, and market economics in accordance with the conditions specified in Article 1 of the Agreement Establishing the Bank.

Tunisia has completed, in 2011 and 2014, two rounds of presidential and parliamentary elections, that were free, fair, and inclusive of all political currents in the country. In 2014, Tunisia's Constituent Assembly put into effect the country's new Constitution, that reflected the population's aspirations after the December 2010/January 2011 revolution. Over the past four years, since the parliamentary election, the executive has consistently demonstrated its adherence to and respect for the Constitution.

The Tunisian judiciary is free; media is varied and do not face systemic restrictions; and the country's civil society, arguably the freest in the region, is an important actor in all key aspects of the country's political and economic concerns.

However, the successful political transition has opened up the country's political economy to acute differences on the economic direction the country ought to take. The differences are healthy and demonstrate plurality and freedom of expression. But often they derailed needed economic reforms. And they were repeatedly manifested in large scale demonstrations, for example in January 2018, and in fraught interactions between the successive coalition governments and the largest labour unions.

## *Free Elections and Representative Government*

### *Free, fair and competitive elections*

Since the December 2010/January 2011 revolution, Tunisian citizens have repeatedly exercised their right to vote. In October and December 2014, Tunisia held parliamentary and presidential elections, respectively. Most observers described them as free, fair, transparent, and inclusive.

The Constitution guarantees the right of political representation. In the first few years after the revolution, over a hundred political party were formed. Of the over 160 registered parties in the country, 70 fielded electoral lists in the October 2014 elections. The Nidaa-Tunis party won the largest number of seats. Nidaa-Tunis formed a coalition government with the Nahda party that secured the second largest number of seats, and with other smaller parties. The government was reshuffled several times through consultations between the political parties and the president, as per the post-revolution Constitution.

The political scene has evolved in the past few years, especially since the parliamentary election in 2014. Pillar political parties, representing different and often opposing political and economic ideologies, exist, are represented in parliament, and operate freely.

### *Separation of powers and effective checks and balances*

Tunisia has a mixed parliamentary-presidential system. The Constitution provides for a separation of powers and institutional checks and balances.

The government which is formed based on parliamentary representation holds executive authority. The President, who is elected by a direct popular vote, retains prerogatives on issues of national security and foreign policy, that are to be exercised in coordination with the government.

# Annex 1 – Political Assessment in the Context of Article 1

The Tunisian parliament has consistently exercised its supervisory and monitoring role over the executive. It plays an active role in discussing, debating, and changing laws presented by the government. In July 2016, the parliament withdrew confidence from the former Prime Minister, and President Beji Essebsi appointed Youssef al-Chahed as Prime Minister.

Several observers have concerns that the presidency has, repeatedly, in the last few years, extended its prerogatives beyond those stipulated in the Constitution. Others contend that the president, acting in the spirit of the Constitution, has intervened to progress the political process, for example with regard to parliament's formation of government, when major political differences threatened to paralyse decision making.

The judiciary generally provides an effective check on the executive.

#### *Effective power to govern of elected officials*

Elected officials have full and effective power to govern.

The constitution gives the country's civilian leadership control over the security forces. This is indeed the case in reality.

#### *Civil Society, Media and Participation*

##### *Scale and independence of civil society*

Tunisia has a highly developed and free civil society. The country's professional associations and labour unions are, arguably, the region's most independent and powerful civil society organisations with regard to the ability to influence decision making in all aspects of public policy.

The laws governing CSOs in Tunisia limit the ability of the government to hinder or delay registration, place few requirements on CSOs with regard to reporting to the executive, and gives the authority to suspend or dissolve associations only to the judiciary. In the period from the enactment of the currently enforced association law (in 2011) until early 2017, the judiciary rejected the vast majority of the government's suspension requests. The key fraught case where the government intervened to ban the conference of an association and effectively dissolve its work, and which led to a protracted legal case in front of a military court, was that of the Islamist Hizb al-Tahrir group.

##### *Independence and Pluralism of media operating without censorship*

Tunisian media is free. The country has an array of independent newspapers and TV and radio stations, in addition to a vibrant online space, that discuss and debate freely, on almost all aspects of public policy and without restrictive intervention from the executive.

However, the law criminalises speech that "causes harm to the public or to public morals, and that intentionally offends the sense of public decency." That vagueness of the wording of such laws gives legal power to state institutions over freedom of expression, and according to some CSOs, results in self-censorship.



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There have been cases, in the last few years, in which charges were brought against Tunisian journalists who reported on military affairs, and which resulted in them standing trial in military courts.

## *Multiple channels of civic and political participation*

Tunisians have varied channels to exercise their political rights. There are virtually no limitations on joining political parties, and on working in/with civil society organisations.

## *Freedom to form political parties and existence of organised opposition*

Tunisian citizens are free to form political parties. The country's political landscape is pluralistic, with many parties representing vastly different views in the society, as well as adhering to different political and economic ideologies.

One of the key achievements of Tunisia's political transition in the past seven years has been the peaceful transfer of power from a government led by the Nahda party to another led by the ideologically different Nidaa-Tunis party, in accordance with the Constitution and the rules of the political process. The same peaceful transfer of power took place from the first post-revolution President to the current President. In both alterations, political parties and leading politicians who were in power moved to opposition and vice versa.

## ***Rule of Law and Access to Justice***

### *Supremacy of the law*

Tunisia has a long and rich heritage of a secular legal system. Legislative, constitutional, and institutional safeguards for the supremacy of the law are in place.

Rule of law is enforced in Tunisia. The Tunisian authorities have, in general, demonstrated respect for the judiciary and its rulings.

### *Independence of the judiciary*

The Tunisian Constitution enshrines the independence of the judiciary. And that independence is reflected in the judiciary's relationship with the executive. It is very rare that independent CSOs report on the executive's ability to influence the judiciary or on the executive's failure to implement a judicial ruling.

The process to create a permanent constitutionally mandated council to govern judicial promotions, transfers, and disciplinary actions, was long and fraught. But, in the end, in late 2015, it led to the election of members of the Council, in a process that most specialist CSOs operating in the country praised as fair and credible.

The 2014 Tunisian Constitution enshrined the establishment of a new Constitutional Court as a key milestone in the development of the judicial system post the 2010/2011 revolution. The court is yet to be established and its members are yet to be selected.

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## *Government and citizens equally subject to the law*

Tunisian law, building on the Constitution, provides for the right to a fair trial, and the country's independent judiciary generally enforced this right.

However, the Counterterrorism law, passed in July 2015, stipulates that in cases deemed to be involving terrorism, judges can significantly restrict the rights of defendants (and their legal counsels), especially regarding access to information. Several civil society organisations (CSOs) criticised the law for its vague definition of terrorism and for the broad prerogatives it gives to judges with regard to what constitutes acceptable evidence.

Civilians could be tried in front of military courts, in cases categorised, by the authorities, as of national security nature. Several CSOs argue that the definition of "national security" is broad. However, the law guarantees any civilian defendant tried in front of a military tribunal the right to appeal the verdict and resort to the (civilian) Supreme Court.

## *Effective policies and institutions to prevent corruption*

Since the last political assessment, included in the documentation upon which Tunisia was voted a country of operations, Tunisia has made significant progress in combating corruption.

In 2011, Tunisia's interim government, formed by the Constituent Assembly, set up an anti corruption agency. Yet, it operated with limited resources and mandate. Following the adoption of the Constitution in 2014, a National Anti-Corruption Agency was created with a much wider mandate and scope of operations.

In 2016, Tunisia adopted a national strategy for good governance. It included a number of measures aiming to significantly improve governance at state owned enterprises. A year after its adoption, in Q4 2017, the government organised a conference to follow up on and assess the experience of the implementation in the first year.

Also in 2016, parliament approved the exposure of corruption and whistleblower protection bill to encourage citizens' participation in the efforts against corruption.

However, in the same year, a major debate erupted in the country concerning a parliamentary bill, initially presented by the president, that was to grant amnesty to officials and business men who are, allegedly, implicated in major corruption cases from the period before the 2010/2011 revolution. Over 20 CSOs signed a letter that denounced this bill as economic reconciliation with corrupt political power centres that encourages pillage of state and public resources. Thousands of citizens demonstrated in protest against the bill. Following the debates and the demonstrations, the scope of the law was reduced, and the bill was adopted, and signed by the president in 2017.

The current government has undertaken a series of steps in a campaign to fight corruption. These included launching multiple investigations in cases of alleged use of power for personal enrichment and abuse of authority. Several senior officials were arrested. Concrete efforts have been undertaken to coordinate the efforts of the Anti-Corruption Agency and the Ministry of Finance.

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However, corruption remains a major concern for the Tunisian and international business community. Also, several Tunisian CSOs and international stakeholders continue to urge the government to progress reforms within the civil service and the country's administrative structure.

In December 2017, the EU included Tunisia in its list of tax havens that, in its assessment, have failed to match up to relevant international standards. In January 2018, the EU lifted Tunisia from the list citing the country's commitment to improve its rules on tax transparency and how they are implemented.

And in February 2018, the European Parliament approved including Tunisia in the European Commission's list of countries considered to be of high risk of money laundering and terrorism financing. Following that, the government embarked on a series of measures to address the concerns of the European Parliament. The Prime Minister replaced the governor of the Central Bank.

In its 2017 index, Transparency International put Tunisia 74th out of 180 countries. In the 2016 Index, Tunisia came 75th out of 176 countries.

## *Civil and Political Rights*

*Freedom of speech, information, religion, conscience, movement, association, assembly and private property*

The Constitution and the law guarantee citizens' political and civil rights. Tunisia has made enormous improvements in the last seven years in advancing citizens' genuine freedom in the exercising of these rights.

As discussed above, media is largely free in Tunisia, and there's a very high degree of freedom of expression.

In response to a series of terrorist attacks that exacted the lives of tens of people, the Tunisian authorities extended several times the state of emergency, which has been in effect since November 2015. The most recent extension, for seven months, was in March 2018.

In July 2015, Parliament enacted the Counterterrorism Law, which expanded the Interior Ministry's legal rights, including over arrest, detention, and investigation. And in cases that are categorised as pertaining to threats to national security, pre-trial detentions could legally extend to nine months. Several CSOs charge that the government used its expanded powers under the state of emergency to place citizens under extended house arrest with limited foundation for suspicion.

Tunisians have repeatedly exercised their right to protest. Tens of demonstrations, primarily stemming from economic causes, took place in the last few years. In 2016, large demonstrations took place in Kasserine; violence erupted; and several CSOs reported the arrest of over a thousand protestors, many on charges of violating nation-wide curfew. In January 2018, different parts of the country witnessed sizeable protests against the austerity measures that the government had included in the 2018 budget. Hundreds have been arrested and there were reports of serious injuries, after elite security units intervened to contain the protests in some of the interior regions. Several CSOs reported that the Interior Ministry had resorted to arbitrary arrests, and often excessive use of force.

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## *Political inclusiveness for women, ethnic and other minorities*

The 2011 and 2014 parliamentary elections were free and inclusive of all key political trends in the country.

Women are politically very active in Tunisia – across the entire political spectrum, from the secular to the Islamist parties. This is helped by a law, enacted after the 2011 revolution, that requires political parties to list equal numbers of males and females in their electoral lists.

## *Freedom from harassment, intimidation and torture*

In the period since the revolution, Tunisia has made major improvements in its record of combating harassment and torture. Citizens and civil society organisations have been empowered to exercise their rights without fear of intimidation.

However, there have been cases in which Tunisian CSOs reported on the use of violence against protestors and prisoners by branches of the security forces. And there were cases in which CSOs alleged that torture did take place and in at least one case, there are allegations of torture that led to death.

There have been reports by specialist rights-organisations, substantiated by a report by the UN Office of the High Commissioner for Human Rights, of significant problems in the country's judicial incarceration system, often resulting from overcrowding and poor infrastructure, and often by abusive behaviour by interior ministry officers.

In response to some of these cases, the Tunisian General Prosecutor launched investigations into allegations of torture, several of which were later referred to the judicial system. Besides, the Tunisian Government has expanded access to prisons for independent NGOs, including the International Committee of the Red Cross, and to the Office of the UN High Commissioner for Human Rights.