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Report No: PGD171

INTERNATIONAL BANK FOR RECONSTRUCTION AND DEVELOPMENT

PROGRAM DOCUMENT FOR A

PROPOSED LOAN

IN THE AMOUNT OF EURO 161 MILLION

(EQUIVALENT TO US$175 MILLION)

TO THE

REPUBLIC OF TUNISIA
FOR THE

FIRST RESILIENCE AND RECOVERY EMERGENCY DEVELOPMENT POLICY FINANCING

June 1, 2020

Macroeconomics, Trade and Investment Global Practice
Transport Global Practice
Social Protection Global Practice
Middle East and North Africa Region

Republic of Tunisia

GOVERNMENT FISCAL YEAR

January 1 – December 31

CURRENCY EQUIVALENTS

(Exchange Rate Effective as of April 30, 2020)

Currency Unit

US$1.00 = TND 0.91945568

ABBREVIATIONS AND ACRONYMS

AFD	French Development Agency (Agence Française de Développement)	MDB	Multilateral Development Banks
AfDB	African Development Bank	MDICI	Ministry of Development, Investment and International Cooperation
AMG1	*Subsidized health insurance program (Assistance Medicale Gratuite – Catégorie 1)*	MENA	Middle East and North Africa
BCT	Central Bank of Tunisia	MOF	Ministry of Finance
bppt	Basis points	MTEF	Medium-Term Expenditure Framework
CIT	Corporate Income Tax	NGF	National Guarantee Fund
CNAM	National Health Insurance Fund		
COVID-19	Coronavirus 2019	NPL	Non-performing loans
CPF	Country Partnership Framework	NRW	Non-Revenue Water
CRES	Center of Research and Social Studies (*Centre de Recherches et d'Etudes Sociales*)	OMMP	Office de la Marine Marchande et des Ports
CSEN	Higher Council of Digital Economy (*conseil supérieur de l'économie numérique*)	ONAS	*National Sanitation Office (Office National d'Assainissement)*
DPF	Development Policy Financing	PCS	Port Community System
EFF	Extended Fund Facility	PDO	Program Development Objective
EPNAs	*Non-administrative Public Enterprises, Entreprises Publiques Non Administratives*	PEFA	Public Expenditure and Financial Accountability
ESMAP	Energy Sector Management Assistance Program	PER	Public Expenditure Review
EU	European Union	PMT	Proxy Means Test
FX	Foreign Exchange	PNAFN	*National Assistance Program for Poor and Vulnerable Households (Programme National d'Aide aux Familles Nécessiteuses)*
G2P	Government-to-person	PPA	Power Purchase Agreement
GDP	Gross Domestic Product		
GNP	Gross National Product	RE	Renewable Energy
GoT	Government of Tunisia	RFI	Rapid Financing Instrument
GRS	Grievance Redress Service	SARS	Severe Acute Respiratory Syndrome

IBRD	International Bank for Reconstruction and Development	SCD	Systematic Country Diagnostic
		SDR	Special Drawing Rights
IFC	International Finance Corporation	SMEs	Small and Medium Enterprises
IFRS	International Financial Reporting Standards	SOE	State-Owned Enterprise
IMF	International Monetary Fund	SONEDE	*Société Nationale d'Exploitation et de Distribution des Eaux*
INPDP	National Authority for the Protection of Personal Data	SOTUGAR	*Société Tunisienne de Garantie*
INS	National Institute of Statistics	SPV	Special Purpose Vehicle
IUC	Unique Citizen ID (*Identifiant Unique des Citoyens*)	SSN	Social Safety Nets
JICA	Japan International Cooperation Agency	STAM	*National Port Handling Company (Société Tunisienne d'Acconage et de Manutention)*
KfW	German Development Bank	STEG	*National Electricity and Gas Company (Société Tunisienne d'Electricité et de Gaz)*
LDP	Letter of Development Policy	TA	Technical Assistance
LPG	Liquified Petroleum Gas	TND	Tunisian Dinar
LPI	Logistics Performance Index	TTN	Tunisia Trade Net
MAS	Ministry of Social Affairs	WB	World Bank
		WBG	World Bank Group

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REPUBLIC OF TUNISIA

FIRST RESILIENCE AND RECOVERY EMERGENCY DEVELOPMENT POLICY FINANCING

TABLE OF CONTENTS

Acknowledgements

The Tunisia First Resilience and Recovery Emergency Development Policy Financing was prepared by an IBRD team co-led by Abdoulaye Sy (Senior Economist, EMNM1), Marc Navelet (Senior Transport Specialist, IMNT1), and Mehdi Barouni (Social Protection Specialist, HMNSP), under the guidance of Eric Le Borgne (Practice Manager, EMNM1), Anush Bezhanyan (Practice Manager, HMNSP) and Olivier Le Ber (Practice Manager, IMNT1).

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SUMMARY OF PROPOSED FINANCING AND PROGRAM

BASIC INFORMATION

Project ID	Programmatic	If programmatic, position in series
P173324	Yes	1st in a series of 2

Proposed Development Objective(s)

The program development objective is to support the Government of Tunisia effectively respond to the COVID-19 crisis and lay the foundation for strong post-crisis recovery by: (a) strengthening resilience and inclusion; (b) enabling private sector recovery; and (c) improving transparency and performance in the SOE sector.

Organizations

Borrower:	REPUBLIC OF TUNISIA
Implementing Agency:	MINISTRY OF DEVELOPMENT INVESTMENT AND INTERNATIONAL COOPERATION

PROJECT FINANCING DATA (US$, Millions)

SUMMARY

Total Financing	**175.00**

DETAILS

International Bank for Reconstruction and Development (IBRD)	175.00

INSTITUTIONAL DATA

Climate Change and Disaster Screening

This operation has been screened for short and long-term climate change and disaster risks

Overall Risk Rating

High

Results

Indicator Name	Baseline (2019)	Target (2022)
Pillar 1. Strengthening resilience and inclusion		
Results Indicator #1: Coverage of cash transfers (permanent or temporary) as a percent of total population. Note: poverty headcount in 2015 is 15%.	9	15
Results Indicator #2: Share of social assistance beneficiaries/applicants with verified (reassessed) welfare status (in percent). Note: the indicator measures the percentage of those who are in the AMEN social registry whose welfare status is verified annually (at least) based on data collection or civil registry or other relevant administrative data using the IUC and through an interoperable platform.	0	80
Results Indicator #3: Increase in digital payment transactions (in percent per annum)	15	20
Results Indicator #4: Volume of loans for firms covered by the new partial guarantee scheme, in TND million (of which to MFIs, in TND million). Note: loan ceiling per institution is TND 1 million and there are seven licensed MFIs as of mid-2020.	0 (0)	500 (5)
Results Indicator #5: Number of active micro-borrowers (of which share of women, in percent)	422,000 (55)	525,000 (56)
Pillar 2. Enabling private sector recovery		
Results Indicator #6: Container dwell time (in days)	18	15
Results Indicator #7: Handling productivity (in containers/hour)	8	12
Results Indicator #8: Private renewable energy capacity developed under the self-generation scheme measured (in megawatt).	26	180
Results Indicator #9: Increase in the traffic with the European market following the enactment of the “Open Skies” (in percent relative to baseline)	0	7
Results Indicator #10: Volume of category 4 loans (loans older than 8 years) in the three largest public banks, in TND million. Note: baseline is December 2018. Cat 4 are loans with overdue payments of more than 360 days. The three public banks are STB, BNA and BH.	2583	2066
Pillar 3. Improving transparency and performance in the SOE sector		
Results Indicator #11: Regular publication of reports on debt, including contingent liabilities from SOEs, and SOE financial performance annexed to the approved annual Budget Law	No	Yes
Results Indicator #12: The share of SOEs by turnover that have published their audited financial reports for year n during year n+1 on the national company registry (RNE) or on their website (in percent of total turnover, non-financial SOEs)	0	60
Results Indicator #13: Operating revenue-to-operating cost ratio (excluding subsidies on the revenue side and depreciation and provisions on the cost side), in percent. Note: Baseline is 2018. The target is the same for all SOEs.	STEG (0.81), SONEDE (1.11), ONAS (1.08) and TUNISAIR (1.03)	1.3
Results Indicator #14: Operating cash flow-to-debt service ratio (excluding subsidies), in percent (absolute value). Note: Baseline is 2018. The target is the same for all SOEs.	STEG (NA due to negative cash	0.25

	flow in 2018), SONEDE (0.37), ONAS (0.05) and TUNISAIR (0.14)	
Results Indicator #15: LPG, electricity and gas subsidies (percent of GDP). Note: WB calculations using the price gap methodology.	1.7	0.8

IBRD PROGRAM DOCUMENT

1. INTRODUCTION AND COUNTRY CONTEXT

1. **The proposed Resilience and Recovery Development Policy Financing (DPF), in the amount of US$175 million, is the first operation in a programmatic series of two operations.** The program development objective (PDO) is to support the Government of Tunisia (GoT) effectively respond to the COVID-19 crisis and lay the foundation for strong post-crisis recovery by: (a) strengthening resilience and inclusion; (b) enabling private sector recovery; and (c) improving transparency and performance in the state-owned enterprise (SOE) sector. The proposed operation is motivated by an urgent need to: (1) strengthen macroeconomic buffers and resilience that are severely tested by the rapid and deep global recession created by the COVID-19 pandemic; and (2) deepen the implementation of longstanding structural reforms which have become even more critical and pressing in light of the impact of the COVID-19 crisis on growth, poverty reduction and shared prosperity.

2. **The operation is part of a well-coordinated and substantial international support package to help Tunisia respond to the COVID-19 crisis.** This international support package includes: (1) parallel policy-based operations jointly prepared by the World Bank (WB), German Development Bank (KfW), French Development Agency (AFD), Japan International Cooperation Agency (JICA) and the African Development Bank (AfDB) in close coordination with the European Union (EU). This joint financing package amounts to US$600-700 million in 2020; (2) financial support from the International Monetary Fund (IMF) through a US$745 million Rapid Financing Instrument (RFI) approved in April 2020, which is expected to be followed by a new program following closing of the 2016-2020 Extended Fund Facility (EFF) in March 2020; and (3) budget support from the European Union, including a two-year Euro 600 million Macro-Financial Assistance program.

3. **The operation was prepared using an innovative donor platform on reforms in Tunisia. The programmatic nature of the proposed operation is critical for continued donor synergies building on this platform and the international support to Tunisia.** The WB/KfW/AFD/JICA/AfDB parallel policy-based operations have been an innovative and effective platform for collaboration with other donors and for joint support of reforms in Tunisia. This platform has supported development of a three-year GoT reform program through intensive policy dialogue and technical missions.[1] This joint support includes sequenced disbursement milestones (including during the same calendar year) that serve to incentivize and keep track of reform progress. This coordinated approach is critical to support Tunisia in staying the course of reform and to help GoT mobilize financing in a more predictable manner.[2]

4. **This international support aims to help Tunisia protect the poor as well as vulnerable households and firms, and thereby avoid a potentially deeper economic and social crisis.** The COVID-19 crisis has laid bare and exacerbated Tunisia's weak macroeconomic performance, and economic and social vulnerabilities. In response to the COVID-19 pandemic, the GoT has introduced aggressive containment and mitigation measures (e.g., border closures, confinement introduced on March 20, school closures). This global crisis is pushing Tunisia towards the deepest recession on record (since the 1960s) after a long period of low economic and employment growth, low productivity and declining competitiveness in a context of high unemployment, poverty and vulnerability, and disparities (including

[1] The three-year program is built on the following four pillars, with three of which the proposed operation is aligned: a) improving the efficiency of transport, energy and digital payment services; b) strengthening the governance and improving the performance of SOEs; c) improving the performance of the public sector and management of public finances; and d) promoting economic and social inclusion.

[2] The KfW and AFD will follow a three-year program and plan two disbursements in 2020 in Q3 and Q4. JICA is following a standalone program with a projected disbursement towards the end of Q3.

spatial, income and gender). A GoT/WB impact assessment suggests that, under a scenario of three months of confinement and travel restrictions that extends to the usual peak of the tourism season (summer), growth would contract by 4 percent, and between 25 to 30 percent of jobs (formal and informal) would be lost in the most affected sectors (e.g., services, export-oriented manufacturing). Job losses will heighten poverty and vulnerability risks given the important role of labor income in poverty reduction in Tunisia and the high incidence of informal jobs among the poor and women[3]. Moreover, about a third of the population is poor or vulnerable (WB estimate) highlighting the criticality of adequate response to the crisis and stronger safety nets. In March, the government announced a package of measures to support vulnerable households and firms to cope with the COVID-19 pandemic costed at US$1 billion (2.5 percent of 2019 GDP), covering two months of implementation.[4] Nonetheless, the macroeconomic situation which was already fragile is under further strain due to limited fiscal and external buffers, substantial financing needs, and high public and external debt.

5. **The financing provided through this international support is critical to meeting Tunisia's financing needs and strengthening macroeconomic buffers.** The COVID-19 crisis and policy responses have increased Tunisia's financing needs substantially while financial market conditions are currently less conducive to Eurobond issuance as planned in the initial 2020 Budget Law. Central government external financing needs (estimated as of early May) have increased to about 11 percent of GDP compared to 9.2 percent of GDP in the initial Budget Law, while total (public and private) external financing needs stand at about 14 percent of GDP. Government financing and liquidity needs for the implementation of health and social measures to respond to the crisis during the first half of the year were supported through emergency restructuring of some WB and donor-funded projects, an IMF RFI, EU and other donor financial support, and domestic debt issuance. The financial package leveraged through this operation is part of an international support package and will cover a substantial proportion of Tunisia's external financing needs given the expected collapse in tourism activity and receipts, export slowdown, lower remittance and muted foreign direct investment (FDI). Without such financing and the underlying reforms, the external and fiscal situation will remain highly vulnerable to a disorderly macroeconomic adjustment that could hurt severely the poor, vulnerable and the middle class.

6. **The proposed operation is also motivated by the need to accelerate urgent policy reforms to improve the resilience and post-pandemic recovery potential of the Tunisian economy and society.** The COVID-19 pandemic has shown that expanding the coverage of safety nets, improving their governance and accelerating the uptake of digital services are critical in increasing the ability of the government to not only reach traditionally vulnerable households - the poor and near poor, workers in informal, part-time or seasonal occupations - but also reach a wider group of households within the social distancing context. As shown by the experience of several countries, accelerating digital (public and private) development in Tunisia is essential for the continuation of key services during COVID-19 pandemic-like shocks. Raising the potential of the economy to recover and reducing vulnerabilities will require tackling longstanding barriers to investment, trade and productivity. Some of these hurdles are weak business environment, limited competition and private sector participation in infrastructure and productivity-enhancing sectors, and the declining and weak financial health of key SOEs. In addition, GoT is providing financial and other support to firms and households during the lockdown to help avoid a temporary crisis from having permanent impacts (e.g., bankruptcies of otherwise viable businesses) that would lower Tunisia's potential output going forward. The operation will help advance reforms to improve the economy's efficiency and potential output. Lastly, greater state effectiveness and

[3] The WB estimates that informal employment, defined as those employed and not affiliated to social security is higher for lower consumption deciles as it ranges between 56 to 71 percent in the lowest three consumption deciles in contrast to between 19 percent and 34 percent for the highest three consumption deciles. Informality is 47 percent among women compared to 39 percent among men.

[4] Additional measures may be introduced depending on the trajectory of the pandemic

transparency will help strengthen Tunisian citizens' trust in government institutions while consolidating social stability and cohesion in the context of a maturing but young democracy.

7. **The proposed DPF supports three interdependent pillars of the government's reform program**, namely: (1) to accelerate safety net reforms and financial inclusion, which are critical to mitigating the impact of the COVID-19 crisis and building stronger social and economic resilience to shocks; (2) to enable private sector recovery by leveraging private sector financing and know-how in infrastructure (in port and logistics, and energy), opening access to the air transport market ("Open Skies") and by improving the framework for rapid, efficient resolution of non-performing loans (NPLs), including for state-owned banks; and (3) to improve the transparency and performance of SOEs. The proposed operation is part of a broader engagement and is complemented by technical assistance (TA) and other operations to support reform implementation (i.e., WB-funded operations in the energy sector and Govtech, as well as SOE and financial sector TA programs).

8. **The GoT has rapidly and strongly responded to the COVID-19 crisis and is fully committed to accelerating the reform of its social protection system to protect citizens more efficiently and build their resilience.** GoT has expanded social safety nets during the first week of the lockdown to mitigate the impact of the crisis on the poor and vulnerable households and individuals. This response supported under pillar 1 of this operation includes: (i) expansion of permanent and temporary cash transfers to benefit about 36 percent of the population (around 4.2 million people); (ii) temporary top-up of small pensions that would benefit about 1.2 percent of the population (about 140,000 people); (iii) introduction of a temporary unemployment benefit that would benefit up to 2.7 percent of the population (about 318,000 people); and (iv) support to self-employed and informal workers that would benefit about 0.3 percent of the population (around 35,000 people). However, the crisis has highlighted gaps and limitations in the ability of existing programs to deliver rapid support to a large number of households and individuals who are impacted, in part due to the fragmentation of existing programs and the absence of a common social platform for program delivery. The government considers that the crisis is a call for and an opportunity to accelerate safety net reforms in three main areas. First, the implementation of the legal framework for social assistance (the Social Safety Law or AMEN Social Law enacted in January 2019) will help improve the targeting and functionality of the system. Second, the government recognizes the need to accelerate the adoption and implementation of foundational enablers which are essential to deliver social services more efficiently and rapidly. These foundational enablers include digital identification (unique register, digital credentials and authentication, digital government-to-person (G2P) payment platforms), social registry, platform interoperability, and user-centric and rights-based approach (process simplification, communication, grievance and redress mechanism, etc.). Lastly, looking ahead it is necessary to put in place a more comprehensive medium to longer-term response to the negative impact of the COVID-19 crisis on poor and vulnerable populations. The response will require an expansion of the coverage of cash transfers, and access to services related to economic inclusion and human capital development under the AMEN social register.

9. **The government and the Central Bank have taken measures to improve access to finance during the crisis and to promote financial inclusion.** The Central Bank has relaxed monetary and prudential regulations and the government has announced various financing facilities to support small and medium-size enterprises (SMEs), affected businesses and the overall economy (see Box 1). In particular, GoT has established a TND 100 million new partial guarantee scheme to help improve access to finance of firms affected by the crisis (see reform supported under pillar 1) which will also benefit microfinance institutions (MFIs) that currently serve over 422,000 micro-borrowers, of which 55 percent are women. In addition, the government and the Central Bank of Tunisia (BCT) are committed to promoting a more rapid and sound development of digital financial services (see reform supported under pillar 1). In particular, the government is strongly committed to accelerating the use of digital payment services which are critical for public service (including safety nets) and business continuity while respecting social distancing measures.

10. **The government is seizing the opportunities induced by the crisis to advance longstanding structural reforms that are critical for Tunisia's competitiveness and medium-term growth and jobs.** The cornerstone of the government's economic recovery strategy is to reform the business environment and SOEs to attract more private investment, improve competitiveness, strengthen the banking and financial sector and economic resilience (see reforms supported under pillar 2). The competitiveness of the Tunisian economy has been declining for many years as a result of chronic underinvestment and stagnant productivity in a complex political transition marked by several shocks (including security shocks). The domestic market suffers from limited competition which undermines private investment, growth and jobs. SOEs which are present in many sectors, including in commercial activities and competitive sectors, have experienced declining performance for many years and their financial situation has deteriorated markedly and is fragile. This situation lowers SOE capacity to invest sufficiently and improve performance, while also stifling growth and job creation. The government's strategy is to accelerate public-private partnerships (PPP) in infrastructure to leverage private financing and know-how - especially in the port and logistics and energy sectors – and to open access to the air transport market ("Open Skies"). To strengthen the banking and financial sector, the government is committed to reforming the framework for efficient and transparent resolution of NPLs, including in state-owned banks.

11. **The government also puts a strong emphasis on improving public sector performance and transparency as a basis for strengthening public sector management, citizen trust in institutions and private sector competitiveness.** The government priorities are to strengthen the governance of SOEs in order to improve transparency, strengthen their internal governance (including competitive nomination and professionalization of their board members), and the strategic management of SOEs (ownership functions, monitoring of performance and compliance). Under pillar 3, the operation will also support government reforms aimed at improving the transparency of public finances, particularly public debt and contingent liabilities from SOEs, and SOE finances and debt (including SOE cross-arrears and debt). The government is also committed to advancing the restructuring of SOEs in priority sectors (energy, water, sanitation, transport) to improve their commercial and financial performance and sustainability, and the quality of public service delivery.

2. MACROECONOMIC POLICY FRAMEWORK

2.1. RECENT ECONOMIC DEVELOPMENTS

Growth, inflation and unemployment

12. **The COVID-19 health, social and economic crisis hit the Tunisian economy while it was already in a long period of low growth and declining potential output.** GDP growth averaged only 1.8 percent per annum in 2011-18 compared to 4 percent in 2001-2005 and 4.5 percent in 2006-2010. In 2019, growth slowed down to 1 percent from 2.7 percent in 2018 (Table 1), as Tunisia experienced several major political events (death of President Essebsi and holding of early presidential and parliamentary elections), industrial production contracted, agricultural growth declined, and despite a good performance of tradable services (Figure 1)[5]. Prior to the COVID-19 crisis, growth in 2020 was projected at only 1.5 percent. The WB estimates that Tunisia's potential GDP growth has dropped by 2 to 2.5

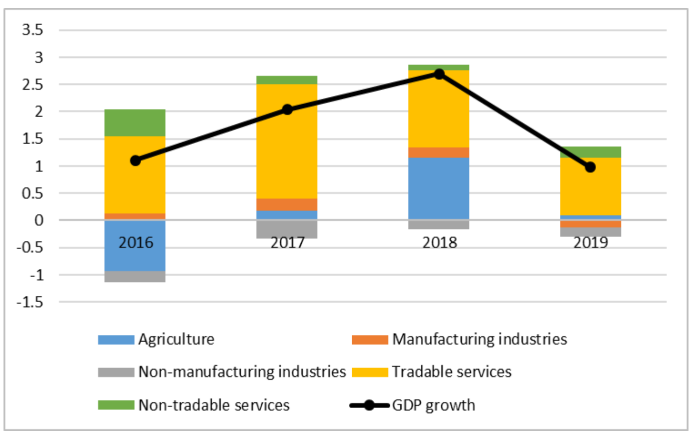
[5] Manufacturing industry (15 percent of GDP) contracted by -0.7 percent in 2019 against 1.1 percent growth in 2018. Its key exports, textile sector and mechanic and electric sector, contracted by -3 percent and -1.5 percent respectively, due to slower European demand (75-80 percent of Tunisian exports). Non-manufacturing industry contracted by -1.8 percent in 2019 and agriculture only grew by 0.8 percent. Tradable services, accounting for 42 percent of the GDP, grew by 2.2 percent in 2019, driven by recovery of the tourism sector.

percentage points over the past fifteen years due to declining physical and human capital, persistently low productivity and lower competitiveness.

13. **The COVID-19 crisis will exacerbate Tunisia's growth challenges in the short and possibly medium term.** Tunisia has introduced aggressive health and containment measures to combat the COVID-19 pandemic, including a lockdown since March 20, 2020 which started to be eased during the first week of May as the number of cases plateaued. A GoT/WB study estimates that a month-long lockdown would reduce growth by 0.9 percentage points in 2020. The report shows that two to three months of lockdown would impact the highly exposed export-oriented sectors (mechanical and electrical products, textiles, etc.), services (tourism, commerce), and transport sector. In the worst-case scenario analyzed, growth would drop by up to 4.5-5 percentage points in 2020 relative to the pre-COVID-19 baseline projections, and lead to the worst recession recorded since the 1960s.[6] These negative growth effects would be accentuated by a projected sharp decline in investment, domestic demand and productivity as the crisis deepens (including through recurring COVID-19 outbreaks until effective, widespread treatment or vaccines are available). Recently published official statistics also point to a significant economic contraction: during the first quarter of 2020 growth contracted by 1.7 percent year-on-year due to sharp recessions in export-oriented manufacturing sectors (-9 percent in mechanical and electrical products, -15.3 percent in textile) and in services (-3.4 percent) and despite strong growth in agriculture (+7.1 percent) and agribusiness (+20.3 percent) due to record olive oil production.[7]

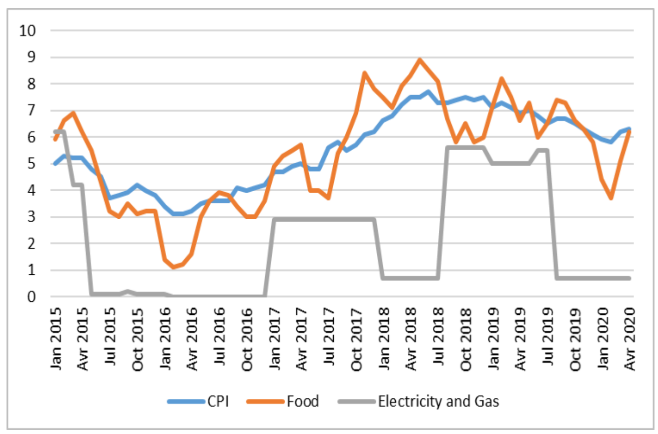
14. **The government and the BCT have proactively supported the economy since the beginning of the pandemic (see Box 1).** The first emergency measures taken by government provided additional resources to the health sector as well as supported poor and vulnerable households (costed at US$1 billion to cover needs for March-May 2020). The government and the Central Bank also took a series of fiscal and monetary measures to support the economy and affected businesses in line with international experiences on country response to the crisis.

Figure 1: Sectoral contribution to growth (in percentage points) and GDP growth (in percent)



Source: National Institute of Statistics

Figure 2: Inflation: Headline, Food and Energy (y-o-y change, in percent)



Source: National Institute of Statistics

[6] As shown in Table 1, the baseline pre-COVID-19 growth is 1.5 percent.
[7] The share of nominal GDP (2019) of these sectors are mechanical and electrical products (5.3 percent), textile (2.4 percent), services (42 percent), agriculture (10.6 percent) and agribusiness (2.9 percent).

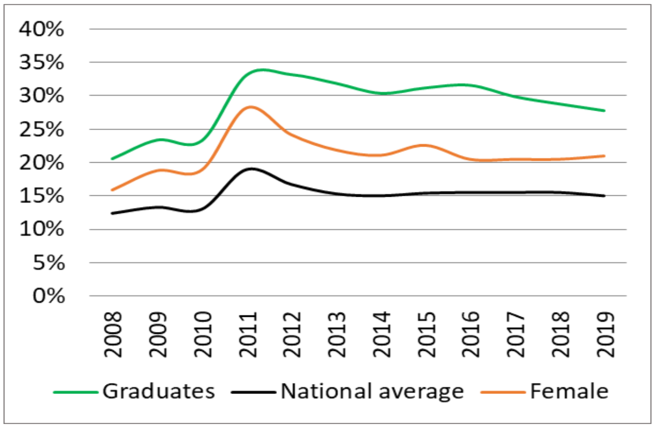
15. **Inflationary pressures have increased in recent months partly due to supply shocks from the COVID-19 crisis.** Inflation slowed down to 6.7 percent on average in 2019, down from a peak of 7.7 percent in July 2018, thanks to tighter monetary policy and the Tunisian Dinar (TND) appreciation (275 basis points hike in the policy rate, reduced central bank refinancing, tighter enforcement of loan-to-deposit ratios). However, inflation accelerated to 6.2 percent only two weeks after the lockdown, due notably to the disruption of supply chain and uncertainty. Notably, food prices rose by 5.1 percent from 3.7 percent a month earlier. Supply disruptions notably on administered products are not fully captured by inflation (almost one-third of the basket are administered prices which limits the extent to which large shifts in consumption related to the pandemic is captured in inflation figures).

16. **The unemployment rate has remained high and job losses are projected to rise with the COVID-19 crisis.** The unemployment rate stood at 14.9 percent in 2019, slightly down from 15 percent in 2018 (Figure 3). In absolute terms, the unemployed are largely low-skilled workers. However, university graduates have the highest unemployment rate (27.8 percent). Unemployment rates are also higher for youth (33.8 percent), women (21.7 percent against 12.1 percent for men) - especially for educated women (38.1 percent of female graduates against 15.7 percent for male graduates) - and in lagging regions off the coast (Figure 4).[8] The GoT/WB study on the macroeconomic impact of the COVID-19 crisis finds that employment elasticities to growth are higher in labor intensive sectors that are highly exposed to the COVID-19 crisis (light manufacturing export-oriented sectors, tourism, commerce etc.) and tend to increase in the short term during recessions. Simulations show that between 25 to 30 percent of jobs (formal and informal) could be lost in the most affected sectors.[9]

17. **The COVID-19 crisis is heightening risks to poverty and vulnerability.** The available evidence suggests that labor income, followed by transfers, has been the main driver of poverty reduction (monetary poverty) in the past decade in Tunisia highlighting the poverty and social risks posed by the COVID-19 crisis through the labor income channel. While the poverty headcount stands at 15 percent (national poverty, 2015), the World Bank estimates that up to a third of the population is poor or vulnerable to poverty. This figure reaches over fifty percent in rural areas. The COVID-19 crisis also raises unprecedented challenges for Tunisia to guarantee household food security and adequate education and health services for all children and individuals due to school closures and limited scope for distance learning (some courses are being delivered through TV channels), income and spatial disparities in access to health care and health insurance translating into high out-of-pocket health expenditures.[10]

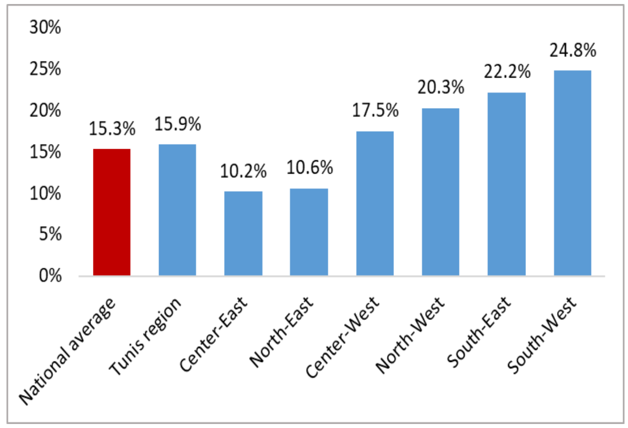
[8] Labor force participation is 40 percent, mainly due to very weak participation of women (21 percent compared to 60 percent for men).
[9] The Center for Research and Social Studies (CRES) in Tunisia estimates that about a third of jobs in Tunisia are informal in “Protection sociale et économie informelle en Tunisie », Centre de Recherches et d’Etudes Sociales, 2016.
[10] The poverty impact of out-of-pocket health shocks is analyzed in the Tunisia Public Expenditure Review, 2019.

Figure 3: Unemployment rate



Source: National Institute of Statistics

Figure 4: Unemployment by region



Source: National Institute of Statistics

Fiscal policy and balance

18. **Tunisia's fiscal deficit was already high before the COVID-19 crisis, resulting in public debt growing above the benchmark for emerging market debt burden.** The fiscal deficit (central government, excluding grants) averaged 5.3 percent of GDP in 2011-2019 despite some progress in fiscal consolidation in 2018-19, particularly on the tax revenue side (Figure 5). However, the widening fiscal deficit was mostly driven by high growth in current expenditures, most notably the wage bill which has further squeezed public spending, as well as lower growth in 2019 (Figure 6). As a result, the public debt-to-GDP ratio has continued to increase and stood at 72.2 percent in 2019, above the 70 percent benchmark for emerging market debt burden.[11] According to the Ministry of Finance, the fiscal deficit reached TND 1.4 billion (1.2 percent of GDP) during the first quarter of 2020 compared to 0.94 billion a year ago (0.8 percent of GDP) as tax revenues dropped by -8.3 percent year-on-year but were compensated by an increase in non-tax revenues (+37 percent) and spending increased by 2.1 percent year-on-year.[12]

19. **The public wage bill is the largest spending item and has been the main driver of spending growth. The government is committed to contain the wage bill but rigidities are high.** The wage bill accounts for over 45 percent of spending and close to 58 percent of tax revenues (2019). While hiring was the main wage bill driver in the 2013-2014 period, general and specific wage increases have been the main sources of public wage bill increases since. In recent years the government has maintained annual hiring limits and is committed to limiting promotions. It also launched a voluntary departure program and an early retirement programs in 2017-2018 but with a limited take-up highlighting the difficulties to adjust staffing and the rigidity of the wage bill. The government has reaffirmed its commitment to containing the wage bill and identifying savings in the recently approved IMF RFI program.

20. **As a net oil importer Tunisia would benefit from low oil prices through substantially lower energy subsidies if such prices are sustained for a long period.** The WB estimates that, at the projected average Brent price of US$35 per barrel in 2020[13] and absent significant currency depreciation, energy subsidies would be eliminated and a fiscal surplus

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[11] The size of the adjustment to stabilize Tunisia's debt-to-GDP ratio is significant. While the primary deficit averaged 2.6 percent of GDP in 2016-2019, a small primary surplus would be needed to bring the debt down to around 60-70 percent of GDP (WB estimate).

[12] On the tax revenue side, direct taxes dropped by 12.9 percent (as personal income taxes dropped by 3.5 percent and corporate income taxes by 33.5 percent) and indirect taxes dropped by 4.3 percent (VAT dropped by 8.8 percent). On the expenditure side, current spending rose by 15.1 percent, interest payments dropped by -2.4 percent and capital spending contracted sharply by 50 percent.

[13] Based on the projection of the World Bank's Commodity Markets Outlook released April 23, 2020.

(net revenue from taxes) would be generated of up to TND 530 million for petroleum products (0.4 percent of GDP) and of up to TND 460 million for electricity and gas (0.3 percent of GDP). Tariffs would be slightly above cost recovery for all energy products except for LPG for households and electricity and gas for low voltage/low pressure customers. However, low prices must be sustained for long periods for fiscal and current account benefits to materialize significantly for Tunisia since the country has limited storage capacity for petroleum products, energy imports are spread over time, and there is a nine-month lag in the indexation formula between oil and gas prices (the main fuel for electricity generation).[14] If the oil price were to increase to US$42 per barrel in 2021 as currently projected, the sector revenue would once again be below costs, with deficits ranging from TND 100-800 million depending on the exchange rate (0.1-0.6 percent of GDP). Moreover, these fiscal estimates are highly sensitive to a potential increase in unit costs as the economic slowdown would reduce energy demand. The COVID-19 crisis may be accompanied by an increase in delays and non-payment of electricity and gas bills which would negatively affect the power utility (see pillar 3 on reforms to improve payment of utility bills particularly among public entities). These developments are occurring while SOEs, and more specifically SOEs in the energy sector, are running large losses (see pillar 3 on policy reforms to address SOE performance).[15]

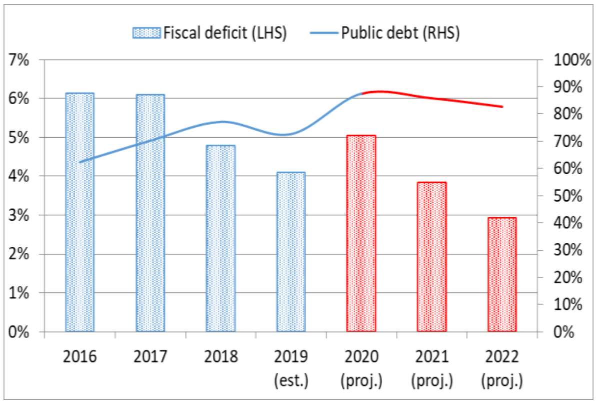
21. **A major source of fiscal risk is the contingent liabilities from SOEs, risks heightened by the impact of the COVID-19 crisis.**[16] The largest Tunisian SOEs are loss-making. According to a report annexed to the 2020 Budget Law (see pillar 3 of this DPF), the total losses of 34 SOEs (accounting for 88 percent of SOE revenues and 75 percent of employment) reached TND 3.5 billion in 2018 (3.3 percent of GDP). The lockdown, border closures and various social distancing measures are likely to affect SOEs particularly those in the transport sector and utilities while the economic crisis would further deteriorate the performance of SOEs in commercial and competitive sectors. This will heighten SOE demand for state financial support. SOE debt guaranteed by the state, which reached 15 percent of GDP in 2019 (of which 78 percent is external from bilateral and multilateral financiers), is an important source of fiscal risk. The abovementioned report shows that while no guarantees on external debt were triggered in 2016-2017, several SOEs received state support in 2018 and 2019 - when the economic situation worsened (lower growth, currency depreciation) - in the form of treasury loans to repay external debt guaranteed by the state, including one utility and three SOEs in the transport, energy and industrial sector. Various guarantees on SOE domestic debt have been triggered between 2016 and 2018. While the total amount of the triggered guarantees remains so far low on an annual basis, a deeper and longer crisis would increase fiscal risks.

[14] Tunisia did not adopt an oil price hedging instrument in 2020.

[15] Sustained low international oil prices would slow down Tunisia's renewable energy transition since the relative price of renewable energy capacity will increase.

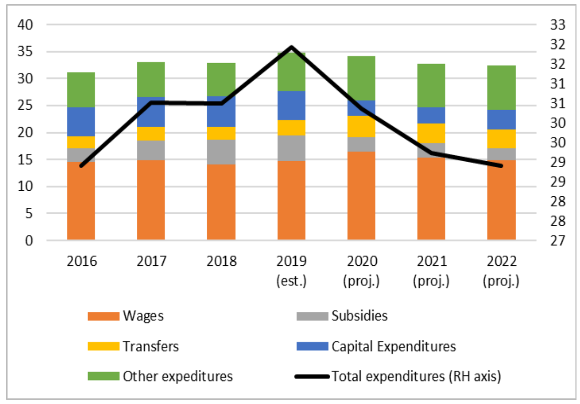
[16] As heritage from its socialist period, Tunisia still has a large public enterprises sector, with 199 entities: 102 public enterprises (including 46 corporations), 73 non-administrative public enterprises, and 24 public health structures.

Figure 5: Fiscal Deficit and Public Debt (in percent of GDP)



Source: Ministry of Finance and World Bank staff projections

Figure 6: Public Expenditures (in percent of GDP)



Source: Ministry of Finance and World Bank staff projections

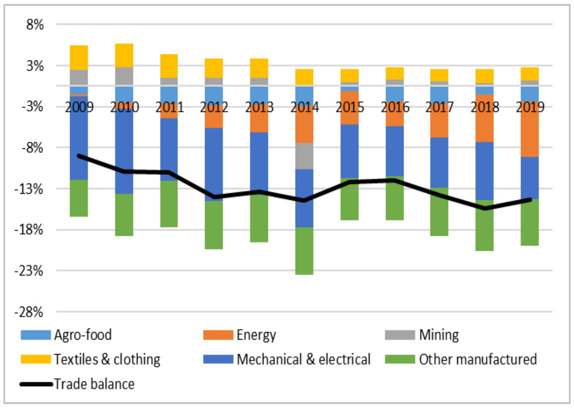
Current account and external position

22. **The current account deficit is narrowing but remains elevated.** The current account deficit dropped to 8.8 percent of GDP in 2019 from the record high 11.1 percent in 2018 (Figure 8) as the trade deficit improved slightly to 14 from 15 percent of GDP (Figure 7). During the first quarter of 2020, the current account narrowed to 1.7 percent of GDP from 2.2 percent of GDP a year before.[17] The GoT/WB report on the impact of the COVID-19 estimates that tourism receipts could drop by as much as 85 percent, and remittances by as much as 20-30 percent. On the capital account, FDI has remained low (2.1 percent of GDP in 2019) and is projected to contract in the face of high uncertainty. Gross reserves which dropped to record low in mid-2018 have gradually recovered on the back of notably tighter monetary policy and foreign exchange (FX) reforms (lower FX intervention, introduction of competitive FX auction and net FX purchases by the Central Bank since May 2019). The Dinar appreciated by about 9 percent against the Euro in 2019 after several years of depreciation. The IMF estimates that the Dinar is overvalued by 10 to 15 percent (IMF RFI, April 2020).

23. **Tunisia has relied mainly on concessional resources to finance its growing deficits and has enjoyed in recent years favorable international market access supported by bilateral guarantees. However, its sovereign credit ratings have deteriorated over the last year and a half.** Tunisia successfully raised Euro 695 million in July 2019 through bonds issuance. However, the country continues to rely mainly on financial support the IMF, the European Union, World Bank, the African Development Bank, and more recently from KfW and Saudi Arabia. Following a three year of overall stable sovereign ratings, several major agencies have downgraded Tunisia in past years: Fitch from BB- to B+ in early February 2017 and to B in May 2020, Ratings and Investment Information (R&I) from BB+ to BB in May, and Moody's from Ba3 to B1 in August 2017 and further to B2 in March 2018. The ratings have remained stable since then, however Moody's placed Tunisia on review in April 2020, reflecting the acute tightening in global financing conditions and higher risks in the context of the COVID-19 crisis.

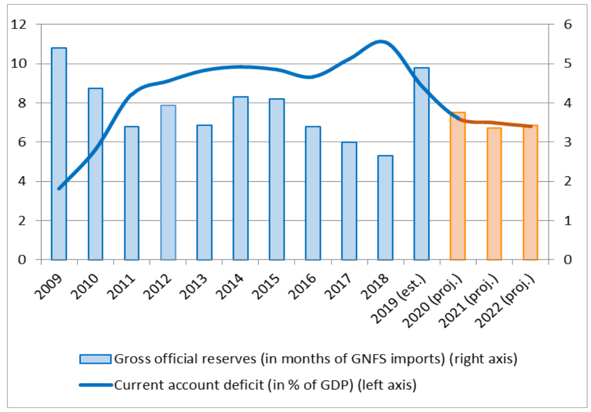
[17] The impact of the crisis is not fully reflected as Tunisia started the lockdown on March 20, 2020.

Figure 7: Trade Balance (in TND million)



Source: National Institute of Statistics

Figure 8: Current Account Deficit and Reserves



Source: Central Bank and World Bank staff projections

Banking and financial sector

24. **The overall banking sector remains stable but suffers from low liquidity.** After having reached a record high NPL ratio of 16.6 percent in 2015 following the worsening of the banks' portfolio, large banking sector reforms were initiated, including tighter supervision and regulatory framework, to gradually converge towards Basel III standards. Reforms also covered corporate governance, recapitalization of public banks, and lastly, reforms on loan write-off were adopted in 2018-2019[18] contributing to cleaning banks' portfolio by transferring bad loans to dispute stage. These reforms have helped lower the NPL ratio, but it remains high at 13.9 percent (as of September 2019), while the capital adequacy ratio has improved to 12.4 percent, the highest level since 2011. In general, banks do not have major liabilities to foreign partners, and net open FX positions are small relative to capital. Credit risk remains a concern due to banks' exposure to interest rate-linked debt of households and corporations with uncertain earning potential. Nevertheless, the ratio of liquid assets to total assets decreased to 4.7 percent as of September 2019 from 5.7 percent at end-2017 reflecting lack of liquidity. As of March 2020, five banks were not compliant with the minimum liquidity coverage ratio (LCR) that was increased to 100 percent in January 2020.

25. **Tunisia's financial sector enters the current COVID-19 crisis constrained in its ability to effectively play a countercyclical role.** Despite such reform progress, the financial sector remains vulnerable to macroeconomic shocks due to structural weaknesses in the banking system, thin capital buffers, overall low liquidity and solvency ratios as well as persistently high NPLs (particularly in public banks). As such, it enters the current COVID-19 crisis constrained in its ability to effectively play a countercyclical role, notably in terms of restructuring credits, absorbing losses and deploying new resources. NPLs are of concern as the existing stock is expected to be compounded by new waves of NPLs stemming from COVID-19 crisis (see reforms on NPL resolution supported by this operation in pillar 2). The stock of NPLs is highly exposed to the industrial, real estate and tourism sectors, all of which are expected to be hard hit by the ongoing crisis. Lastly, the crisis has exposed non-bank financial institutions, and in particular the microfinance sector, to sudden shifts in its operating environment, increasing borrowing costs and deteriorating credit quality. These abrupt changes are compounded with heightened pressure on liquidity. Without support from regulatory authorities,

[18] The implementation of new Bankruptcy Law adopted in 2016 has started in 2018 and laws on public banks (n°2018-36 and n°2018-37) were adopted in May 2018 (public banks were not covered by the Bankruptcy Law). In addition, a commission for write-off of public banks' loans was created under the Ministry of Finance leadership in February 2019. The bankruptcy reform as well as most of the banking sector reforms were supported through various programs by the World Bank since 2011.

shareholders or lenders in the microfinance sector will face solvency issues, threatening to undo years of efforts to develop this critical subset of the financial sector.

26. **The authorities announced a series of economic and financial measures in response to the crisis (see Box 1).** While increased public support to the real economy through the financial sector is rapidly needed, it has to be deployed in a sustainable and focused manner and it is key that such interventions do not lead to excessive risk build-up jeopardizing the financial stability of an already stretched financial sector.

Table 1: Tunisia Selected Macroeconomic Indicators, 2016-2023

	2017	2018	2019	2020		2021	2022	2023
			(Prel.)	(Pre-Covid19)	(Proj.)	(Proj.)	(Proj.)	(Proj.)
Real Sector and Prices								
Real GDP growth (% change)	2.0	2.7	1.0	1.5	-4.0	4.2	2.2	2.7
Gross Investment (% of GDP)	19.3	18.5	19.2	18.9	14.0	14.2	16.0	16.9
Gross National Savings (% of GDP)	5.6	7.4	10.3	11.0	6.8	7.1	9.2	10.2
Inflation (GDP deflator, % change))	5.2	6.5	6.7	5.3	4.9	5.5	3.3	4.7
Government finance (% of GDP)								
Total Revenues (including grants)	24.3	26.1	28.0	28.6	26.4	25.5	26.2	26.6
Total expenditure and net lending	30.5	30.5	31.9	31.5	30.4	29.2	28.9	29.3
Overall balance (excluding grants, confiscated assets and privatization receipts)	-6.1	-4.6	-4.1	-3.1	-5.0	-4.0	-3.0	-2.9
Public debt ratio	70.2	78.0	72.2	76.1	83.1	82.8	82.3	79.8
Selected Monetary Accounts (Annual percentage change, unless otherwise indicated)								
Money and quasi-money (M2)	11.6	6.9	8.4	7.2	4.8	6.5	7.5	9.1
Credit to the economy	9.4	8.4	3.5	6.1	5.3	5.4	5.8	6.2
Policy interest rate (%, eop)	5.00	6.75	7.75	..	..	..	..	..
Balance of Payments (Percent of GDP, unless otherwise indicated)								
Current account balance	-10.2	-11.1	-8.8	-8.0	-7.2	-7.0	-6.8	-6.7
Trade balance	-13.3	-14.9	-13.9	-12.6	-10.3	-11.0	-13.2	-13.9
Exports of goods	35.7	38.8	38.7	39.5	31.9	37.3	39.6	40.5
Imports of goods	49.1	53.7	52.6	52.1	42.2	48.2	52.8	54.5
Foreign Direct Investment	2.0	2.5	2.1	2.1	0.5	1.7	2.3	2.5
Gross reserves (US$ billion, eop)	5.6	5.2	7.4	7.4	6.3	6.3	7.0	7.6
in months of next year's GNFS imports 1/	3.0	2.6	4.9	3.8	3.8	3.4	3.4	3.4
External debt	57.0	89.4	92.5	90.1	98.0	101.6	101.1	96.2
Exchange rate, average (TND/US$)	2.42	2.65	2.93	..	..	..	..	..
Memorandum items								
Population (million)	11.5	11.7	11.8	11.9	11.9	12.0	12.1	12.2
Nominal GDP (TND million)	96,325	105,597	113,732	121,815	114,534	125,907	132,925	142,890
Nominal GDP (US$ billion)	39.8	39.9	38.8	..	..	..	..	..
GDP per capita (current US$)	3,452	3,452	3,308	3,391	3,100	2,994	3,022	3,175
Exchange rate, average (TND/US$)	2.42	2.65	2.93	..	..	..	..	..
Unemployment rate (% of active population)	15.3	15.4	14.9	..	..	..	..	..

Source: Tunisian Authorities, IMF estimates and World Bank staff projections
1/ End-of-year reserves over next year's goods and non-factor services imports

2.2. MACROECONOMIC OUTLOOK AND DEBT SUSTAINABILITY

Growth Outlook

27. **Tunisia's economy is expected to enter a recession in 2020 (its deepest since the 1960s) due to the impact of the COVID-19 pandemic**. Economic growth is projected to contract by 4 percent in 2020, compared to a projected expansion of 1.5 percent prior to COVID-19 crisis, under the baseline scenario of social distancing and confinements continuing for about three months (starting in the third week of March) leading to a simultaneous demand and supply shock. The most affected sectors include export-oriented industries and services - such as tourism (accounts for 7 percent of GDP in 2019), mechanical and electrical products (5.3 percent), textile (2.4 percent) as Tunisia's key trade partners (France, Italy, Spain absorbing 50 percent of export) are among the hardest hit countries - transport (accounts for 7 percent of GDP) and commerce (9.3 percent). The depth of the recession is mitigated by moderate growth in agriculture (accounts for 10.6 percent of GDP) thanks to a good agricultural season and public administration (19 percent). The economic contraction could be 1 to 1.5 percentage points deeper in 2020 relative to the baseline scenario if the COVID-19 outbreak leads to a more protracted confinement or cycles of confinement and deconfinement due to a resurgence of cases, both domestically and in trade partner countries. Even when production resumes, many sectors may continue to be affected by potential disruptions of supply chains.

28. **GDP growth is projected to rebound in 2021 but growth in the following years will remain subdued in the baseline conservative scenario**. Under the baseline scenario for 2021, a recovery of 4.2 percent is projected but the economic outlook is subject to unusually high uncertainty and downside risks. The magnitude of the recovery will depend on the dynamics of the pandemic (including cycles of confinement and deconfinement, border closures and reopening), changes in behavior of firms and households (e.g., lower propensity to travel, continued social distancing), the speed of the rebound in demand both domestically and in trade partner countries, as well as the pace of normalization of supply chains. The baseline projections after 2021 remain conservative and assume a return to a relatively moderate potential growth trend around the 2.5-2.8 percent annual historical growth. The government reforms, including those supported in this program, would increase potential output, albeit the global health and economic context may not be conducive to materialization of their full impact.

Fiscal Outlook

29. **Government finances will be substantially impacted by the COVID-19 outbreak and fiscal risks will exacerbate.** The fiscal deficit is expected to increase to 5 percent of GDP in 2020 (compared to 3 percent of GDP in the initial Budget Law) as revenues decline both in 2020 and 2021 and expenditures edge down as the savings in energy subsidies are partly re-oriented to social transfers and support to the private sector (Table 2). Capital spending is projected to contract as the government announced its intention to delay non-priority, non-health and education investments. The fiscal deficit and government financing needs would further increase under the scenario of a longer confinement period or resurgence of COVID-19 pandemic, or depressed global demand. Contingent liabilities from SOEs, especially in affected sectors such as utilities and the transport sector, would exacerbate pressures on government finances. The medium-term fiscal outlook is based on a significant narrowing of the primary balance by 2023 consistent with the objective of containing and lowering the public debt-to-GDP ratio. This outlook is highly dependent on the evolution of the COVID-19 outbreak as well as the government's wage bill control measures, subsidy reform and other fiscal consolidation measures and is subject to high downside risks.

30. **Given the unusually high downside risks to the fiscal outlook, it is critical for Tunisia to advance well prioritized fiscal reforms to create space to respond to the COVID-19 crisis, particularly if it were to deepen or lengthen.** A worsening of the COVID-19 crisis will be accompanied by a further decline in tax revenues (and non-tax revenues due to the weak financial performance of SOEs) and a less than proportional drop in expenditures as savings from energy subsidies and public investments would be redirected to the health and social sectors, and support to businesses. In this context it is critical to advance fiscal reforms in order to open some fiscal space and contain the deficit and debt in the short and medium term. Government is committed to containing the wage bill by identifying concrete savings (see IMF RFI). But the wage bill has been rigid, and it is therefore critical to simplify and rationalize the pay structure while continuing to contain staffing growth, promotions and salary increases. The low oil prices and the acceleration of reforms to strengthen safety nets (see pillar 1 of this operation) are a unique opportunity to reduce energy subsidies in a more sustained way (see pillar 3 on reform to energy subsidies, particularly for LPG, electricity and gas). For other petroleum products the government has introduced a quarterly price adjustment mechanism (under the recently expired IMF EFF program) but implementation has been uneven. GoT has committed to moving to monthly adjustments and to improving implementation of the fuel price adjustment mechanism under the IMF RFI. Multiple electricity and gas tariff adjustments were implemented in 2018 (ad hoc adjustments). On the revenue side, improvements in tax administration and phased elimination of the preferential tax regime for offshore companies introduced December 2018 need to continue to improve tax efficiency. The tax burden in Tunisia is relatively high and the tax base is narrow which undermines competitiveness, growth and equity. Business environment and SOE reforms are critical to the success of this consolidation path and to raise the potential growth of the Tunisian economy.

Table 2: Tunisia Key Fiscal indicators 2017-2023 (in percent of GDP)

	2017	2018	2019 (Prel.)	2020 (Proj.)	2021 (Proj.)	2022 (Proj.)	2023 (Proj.)
Overall balance (excluding grants, confiscated assets and privatization receipts)	**-6.1**	**-4.6**	**-4.1**	**-5.0**	**-4.0**	**-3.0**	**-2.9**
Primary balance	-3.4	-1.9	-1.3	-1.9	-0.7	-0.3	-0.1
Total revenue (excluding grants)	**24.3**	**26.1**	**28.0**	**26.4**	**25.5**	**26.2**	**26.6**
Tax revenues	24.3	24.0	25.4	23.2	22.5	23.2	23.8
Direct taxes	8.9	8.6	11.1	10.5	9.1	9.3	9.8
Indirect taxes	13.1	15.4	14.3	12.7	13.4	13.9	14.0
Non-tax revenues	2.3	1.9	2.4	2.2	2.8	2.7	2.6
Capital income	0.0	0.0	0.0	0.0	0.0	0.0	0.0
Grants	0.2	0.2	0.2	1.0	0.3	0.2	0.2
Total expenditures and net lending	**30.5**	**30.5**	**31.9**	**30.4**	**29.2**	**28.9**	**29.3**
Current expenditures	25.0	24.9	26.6	27.4	26.2	25.3	24.8
Wages and salaries	14.9	14.1	14.7	16.5	15.4	14.9	14.6
Goods and services	1.6	1.1	1.5	1.3	1.3	2.0	2.0
Interest payments	2.7	2.7	2.8	3.1	3.2	2.7	2.8
Transfers and subsidies	6.1	7.0	7.6	6.6	6.2	5.7	5.4
Subsidies	3.6	4.6	4.8	2.7	2.7	2.2	2.1
Transfers	2.5	2.3	2.9	3.9	3.5	3.5	3.3
Non allocated (incl. Covid19 measures)	0.0	0.0	0.0	0.5	0.0	0.0	0.0
Capital expenditures and Net lending	5.5	5.6	5.3	2.9	3.1	3.6	4.5
Overall balance (excluding grants, confiscated assets and privatization receipts)	**-6.1**	**-4.6**	**-4.1**	**-5.0**	**-4.0**	**-3.0**	**-2.9**
General Government Financing	**6.1**	**4.8**	**4.1**	**5.0**	**4.0**	**3.0**	**2.9**
Grants, privatization receipts and sales of confiscated assets	0.3	0.4	1.0	1.1	0.3	0.2	0.2
External (net)	4.8	3.6	1.8	1.9	2.2	2.4	1.8
Domestic (net)	1.1	0.8	1.3	2.0	1.5	0.3	0.8

Sources: Tunisian Authorities and World Bank staff estimates and projections

External Outlook

31. **Tunisia's current account deficit is expected to decline due to lower domestic demand, lower global energy prices and despite weaker exports. Exchange rate flexibility is critical to limit Tunisia's external imbalances.** Imports are expected to contract at a faster pace relative to exports in 2020 due to a reduction in energy, consumption and capital imports. The decline in the projected energy trade deficit (accounting for 40 percent of the trade deficit in 2018-2019) is based on the fall in global energy prices and the gradual operation of the Nawara gas field. The COVID-19 outbreak is expected to impact the current account balance as services exports in the tourism sector plummet and remittances fall since the bulk of remittances originate from the hardest hit European countries. Following the economic recovery in 2021, net export growth is expected to contribute to a modest decline in the external deficit while FDI inflows are assumed to remain muted in the medium term. The BCT is committed to maintaining competitive FX auctions (introduced in mid-2018) and net FX purchases by the BCT (since May 2019) which have facilitated exchange rate flexibility and helped preserve international reserves.

Debt Sustainability Analysis

32. **The COVID-19 shock is expected to exacerbate Tunisia's macroeconomic imbalances and debt sustainability risks.** The public debt-to-GDP ratio is projected to remain well above the emerging market debt burden benchmark of 70 percent of GDP as Tunisia's open economy is forecasted to undergo a sizable recession in 2020. Public debt is forecasted to rise from 72.2 percent of GDP in 2019 to a peak of 83.1 percent of GDP in 2020 before starting to decline in subsequent years. The public debt outlook is built on the assumption of a sustained commitment to fiscal reforms aiming to improve the primary balance from 2021. The reforms include a reduction of energy subsidies, greater efficiency of social transfers, and a containment of the wage bill. The latest public debt sustainability analysis shows that while debt is sustainable, it is sensitive to an exchange rate depreciation (as 71 percent of public debt is external) and to contingent liability risks from SOEs (see Annex 4 for the detailed public debt sustainability analysis (DSA)). In addition, the debt sustainability outlook is sensitive to a protracted deterioration of GDP growth and public finances due to the COVID-19 shock. Tunisia's public debt vulnerabilities are partially mitigated by its low average interest rate and long maturity as around half the debt in 2019 was owed to multilateral and bilateral financiers. The continued availability of such financing is critical for the sustainability of public debt.

33. **Tunisia's external debt is projected to increase substantially in 2020 due to high external financing needs.** Total external debt as a share of GDP is projected to increase to more than 100 percent of GDP by 2021 due to recent and forthcoming Eurobond issuances, and official funding. The external debt burden is expected to decline as the current account deficit narrows. External debt sustainability risks are largely related to the exchange rate dynamics (IMF RFI, April 2020). However, as for public debt, Tunisia's external debt is mostly medium and longer-term (76 percent of total external debt) and at below market rates.

Risks to the macroeconomic outlook

34. **The downside risks to the outlook are unusually high.** The main macroeconomic risks facing Tunisia are related to a potential worsening of the domestic and global economic situation, as well as to social and security risks. A lengthening and deepening of the COVID-19 crisis will further strain Tunisia's macroeconomic and fiscal situation (deeper recession, job losses, higher fiscal deficit and financing needs, SOEs in financial difficulty, etc.). While the government is responding to the crisis, its deepening would negatively affect the social climate. Lastly, the security situation has improved but remains a lingering risk.

Overall assessment of macroeconomic policy stance

35. **Overall, the country's macroeconomic policy framework is adequate but remains very fragile under the unprecedented shock and uncertainty posed by the COVID-19 crisis.** This highlights the importance of strong policy anchors and international support. The government is committed to maintain macroeconomic and fiscal stability while responding to the COVID-19 crisis. The World Bank and several other bilateral and multilateral institutions (the EU, AfDB, EBRD, KfW, AFD, JICA) are providing technical and financial support to accelerate the implementation of structural reforms to build stronger macroeconomic and social resilience and faster economic recovery.

Table 3: External Financing Needs 2018-2021 (in US$ million)

	2018	2019 (Prel.)	2020 (Proj.)	2021 (Proj.)
Current account deficit	4,429	3,430	2,644	2,521
External medium and long-term debt amortization	1,124	2,596	2,642	3,054
Total requirements	**5,553**	**6,026**	**5,286**	**5,575**
FDI and portfolio investment (net)	948	811	172	623
Long term disbursements (excl. IMF)	3,166	3,572	2,791	3,585
of which multilateral and bilateral budget support	977	1,298	1,952	1,684
of which World Bank	500	0	175	125
of which financial market access	571	773	0	750
IMF credits (net)	227	-135	579	-79
Other capital flows n.i.e. (includes short term lending)	2,291	4,033	1,205	1,298
Total resources	**6,405**	**8,281**	**4,168**	**5,506**
Change in foreign reserves	853	2,255	-1,118	-69
Total Financing	**5,552**	**6,026**	**5,286**	**5,575**

Sources: Tunisian Authorities and World Bank staff estimates and projections.
WB financing in 2021 is subjet to confirmation.

2.3. IMF RELATIONS

36. **The IMF Board approved a Rapid Financing Instrument for Tunisia on April 10, 2020 to support the country's response to the COVID-19 crisis. GoT and the Fund are also negotiating a new program as the 2016-2020 Extended Fund Facility closed in March.** The IMF provided Tunisia with US$745 million emergency assistance through a RFI to support the country's policy response to the COVID-19 pandemic (particularly in the health and social sectors and to support businesses, as well as to ensure an adequate level of international reserves). The processing of the RFI triggered the closing of the four-year EFF program which was signed in May 2016 in the amount US$2.9 billion and for which five reviews have been completed (compared to a target of nine reviews).[19] The successor program being negotiated is likely to remain focused on key areas supported by the EFF (macroeconomic and financial stability, fiscal consolidation particularly wage bill and subsidy reduction and tax reform) and to support the deepening of reforms whose urgency is accentuated by the COVID-19 crisis (reducing macroeconomic and fiscal vulnerabilities, reducing the fiscal cost and risks of SOEs, improving the business environment, etc.).

[19] The program was based on bi-annual reviews until mid-2018 and thereafter based on quarterly reviews.

3. GOVERNMENT PROGRAM

37. **Prior to the COVID-19 outbreak, the GoT development program was underpinned by the development vision and reform agenda set out in the Five-Year Development Plan for 2016-2020.** Based on the importance of the private sector for boosting job creation and driving inclusive and sustainable economic growth, the Five-Year Development Plan specified a program of reforms that rested on five axes: (i) Financing the economy; (ii) Fiscal consolidation; (iii) Human capital development; (iv) Redesign of the social security system; and (v) Business climate and private investment.

38. **The government recognizes fully that the COVID-19 pandemic poses additional short and long-term risks to the Tunisian economy.** Trade and tourism are still facing shocks (due to border closures, and potential consumer behavior change including perceived risk of travel), while the government is currently slowly reopening its economy after strict containment measures that led to a sharp economic slowdown. Another effect of the crisis will be through intensified pressure on the already narrow fiscal space of the GoT, which will in turn put pressure on the provision of social services during and after the economic downturn. These impacts will be more extreme for the most vulnerable groups such as the unemployed, informal workers, with different impacts across gender and age. Specifically, COVID-19 crisis is expected to disproportionately affect women as they are largely working in precarious jobs and other vulnerable forms of employment (e.g., self-employment in small subsistence businesses, domestic work). Also, women will likely experience a significant burden on their time given their multiple childcare responsibilities as school closures and confinement measures are adopted, with potential negative consequences on their participation in the labor market. Gender-based violence may increase due to confinement measures according to existing analysis.[20]

39. **In response to the COVID-19 pandemic, an exceptional social and economic emergency plan of TND 2.5 billion (2.2 percent of GDP) was announced by the government on March 21, 2020 (see Box 1 below).** The package includes the postponement of corporate income tax (CIT) payments, other taxes and social contributions, value-added tax (VAT) exemptions, VAT refund procedures and reimbursement acceleration, rescheduling taxes and custom arrears, and others in order to provide liquidity to the private sector, limiting layoffs and protecting the most vulnerable population especially in the informal sector. The plan also includes an expansion of the budget allocation for health expenses as well as the creation of a TND 100 million fund for the acquisition of equipment for public hospitals. From the social side, this also includes cash transfers for poor and low-income households, and specific vulnerable groups (TND 450 million for three months). The plan further includes social support to those who will be on temporary unemployment because of the COVID-19 shock (TBD 300 million).

Box 1: Government and Central Bank Measures to Support Households and Firms during the COVID-19 Crisis (as of mid-May 2020)

Immediate Social Measures

- Cash transfer top-up of TND 50 for 260,000 poor households (7.9 percent of the population) reviving permanent cash transfer program (PNAFN) to bring total transfer to at least TND 230 per beneficiary. Two payments to cover April and May.
- Temporary cash transfer of TND 200 for 770,000 households (28.1 percent of the population), including 470,000 households (benefiting from subsidized health card program (eligible for two transfers in April and May) and 300,000 vulnerable households (eligible for one transfer in May).

[20] WBG, 2020. Gender Related Inequalities Emerging from COVID-19. Poverty and Equity Global Practice. Draft note

- Pension top-up (TND 100) for 140,000 retirees (1.2 percent of the population) whose monthly pension is below TND 180 (one-off mid-April).
- Temporary unemployment benefits (TND 200) for workers who will be affected by partial unemployment (one-off mid-May and a second transfer under consideration).
- Temporary cash transfer (TND 200) to self-employed individuals who suffer from business income loss (one-off mid-May and a second transfer under consideration).

Emergency measures to support firms

- Creation of a TND 300 million support fund for SMEs
- Creation of a TND 100 million new partial guarantee scheme
- Creation of a TND 700 million to restructure companies in difficulty
- Postponement to the end of May 2020 of corporate tax returns (previous deadline March 25), except for companies subject to the wealth tax at the rate of 35 percent.
- Suspend all tax audit operations and appeal deadlines until the end of May 2020.
- Reduction of deadlines for refunding tax credits to a maximum of one month.
- Exemption of customs penalties established before March 20, 2020, with payment of duties and taxes due and a fixed penalty of 10 percent.

Measures for fully exporting companies:

- Possibility for companies operating in the food industry and health sector to sell on the local market up to 100 percent of their production during the year 2020.
- For the other exporting companies in the other activity sectors, increase of the quota from 30 to 50 percent during the year 2020.

Measures for most affected companies:

- Creation of a committee, within the Presidency of the government, dedicated to monitoring large companies most affected by the crisis with the possibility of rescheduling the tax debts of these companies over a period of up to 7 years.
- Suspension for these companies of the application of late payment penalties for a period of 3 months from April 1, 2020.

Measures for Banking and Financial sector:

- Cut in the policy interest rate by 100bps, to 6.75 percent.
- Request from the Central Bank to suspend distribution of banks and financial institutions dividends for the 2019 financial year.
- Suspension of fee on withdrawal, electronic payment of below TND100, and establishment of banking card.
- Relaxation of the loan-to-deposit ratio requirements for the banking sector.
- Defer payments on bank credits and on non-professional loans.
- Extension of the list of assets eligible as collateral for refinancing operations.
- Creation of investment funds (TND 600 million) with a public guarantee (TND 100 million) mechanism to cover up to TND 500 million of new credits.
- Subsidized interest rate (up to 3 percentage points above the average money market interest rate or *Taux moyen du marche monetaire*).

40. **More specifically, the Ministry of Health (MoH) developed a National Plan for the Prevention, Preparation, Response and Resilience to SARS-COVID-2 (*Plan de Prévention, Préparation, Réponse et Résilience au SARS-COVID-2*).** The Plan is in line with the World Health Organization (WHO) guidelines to respond to the COVID-19 pandemic, and covers the pillars of coordination, communication and community engagement, surveillance and case investigation, national laboratories, infection prevention and control, and case management. The implementation of the Plan is led by the National Office for New and Emerging Diseases (*Office national des maladies nouvelles et émergentes* - ONMNE)

with close collaboration and involvement of representatives from various directorates (both at central and regional level) of the MoH as well as national experts in the field of infectious diseases. The MoH, in collaboration with WHO and other development partners, has determined that the overall cost of implementing the Plan requires US$157 million. However, a financing gap of approximately US$72 million has been identified to cover shortages in equipment and supplies necessary for testing, intensive care and infection prevention and control. Tunisia has benefited from the WBG Fast-Track COVID-19 Facility through a US$20 million project to support the emergency health response.

41. **The government has also taken measures to mitigate the disruption in learning due to school closures as part of social distancing measures.** The Ministry of Education (MoE) has introduced the following interventions: (a) launching TV education programs and developing online platforms to reach students with remote learning; (b) training teachers to build critical skills for online and virtual teaching; and (c) developing digital content dissemination mechanisms to enable effective and efficient communication and feedback loops with administrators, teachers, students and parents. The WB is supporting government efforts to implementing its COVID-19 education response through the restructuring of existing operation (Strengthening Foundations for Learning Project, P162297).

42. **GoT has rapidly launched various social measures to mitigate the impact of the crisis including vertical and horizontal expansion of existing social safety net programs, cash transfers for self-employed, temporary benefits for loss of employment and pension top-up (for low pensions).** GoT social measures are projected to amount to TND 1.45 billion (for three months). Temporary cash transfers for poor and vulnerable households were built on the existing social safety nets (SSN) by: (i) increasing the amount of cash transfers by 28 percent (TND 50) (9 percent of the population – 260,000 households); and (ii) providing TND 200 temporary cash transfers to beneficiaries of subsidized health card program, or AMG2 program (21 percent of the population – 623,000 households). Measures for vulnerable individuals under contributive schemes includes pension top-up of TND 100 per month for 140,000 retirees whose monthly pension is below TND 180 and temporary unemployment benefits in the amount of TND 200 for workers who will be affected by partial unemployment. Self-employed individuals who suffer from business income loss also receive a compensation of TND 200 (one-off as of mid-May 2020 and a second transfer under consideration).

43. **The new AMEN social registry (SSN registry) has improved the capacity to implement immediate measures for most poor and vulnerable households but several implementation challenges remain.** These are primarily driven by the delay in the reform process:

- **Coverage and identification**: More than 200,000 households (potentially eligible to AMG2) are not enrolled in the AMEN social registry. In addition, an increasing number of new households are applying to the temporary cash transfer;
- **Interoperability and coordination:** The AMEN social registry is not systematically linked to the information system of other social programs (including contributory schemes), hence the risk of double dipping;
- **Delivery issues**: This rapid expansion of cash transfers has put some strain on the payment delivery due to weaknesses in the digital payment system.

44. **The crisis brings a major shift in the SSN reform with greater government commitment and upstream stakeholder consensus translating into an acceleration of the implementation.** On the technical level, several platforms to improve the identification and enrolment of households and individuals are being piloted and strengthened. A multisectoral government team is carrying data cross-checks using existing administrative registries and new platform databases to ensure an effective response to the crisis. GoT is accelerating the implementation of

the citizen's unique ID, interoperability platform, social registry and a digital payment system will improve the government's response to the crisis in the short and medium term.

45. **The economic emergency measures package includes support to struggling businesses**. In the context of the COVID-19 crisis, the government and the BCT have taken measures to support the economy and affected businesses[21]. The key economic measures of the GoT's response plan include: (i) granting possibility to delay tax payments and reduction of deadlines for refunding tax credits to a maximum of one month; (ii) increasing re-financing capacity of local banks through guarantees; (iii) payment moratorium on microfinance loans with a cap for the interest rate to be charged during the grace period; and (iv) mandating the "*Caisse des Dépôts et de Consignation*" to set up a TND 700 million fund to support SMEs and the public health sector. Central Bank of Tunisia announced also monetary measures which include: (i) reduction of the policy rate by 100bps to 6.75 percent; (ii) moratorium on bank loans to corporates and individuals for 6 months; (iii) easing of the regulation and controls on loan/deposit ratios on banks; (iv) granting free access to ATM cards; and (v) doubling the BCT refinancing envelope to TND 10 billion.

46. **While GoT is tackling the immediate emergency response, it is also preparing an economic recovery plan.** The broad priorities of this plan are to: (i) consolidate sovereignty and security; (ii) safeguard SMEs' viability as well as the recovery of key sectors; (iii) simplify and digitize the public sector and administrative procedures; (iv) improve citizens' purchasing power and support to vulnerable households and individuals; (v) develop human capital, safeguard jobs, and tackle precarious employment; (vi) implement the national strategy against corruption, speculation and contraband; (vii) mobilize financial resources and ensure public spending efficiency; (viii) accelerate the execution of underperforming major projects; and (ix) develop a global strategy to address issues pertaining to extractive sectors.

4. PROPOSED OPERATION

4.1. LINK TO GOVERNMENT PROGRAM AND OPERATION DESCRIPTION

47. **The proposed operation focuses on accelerating concrete reform actions where upstream consensus and urgency have been triggered by the COVID-19 crisis while building the foundations to tackling structural reforms that are critical for a strong recovery.** The crisis has opened windows of opportunity to advance reforms where consensus has strengthened or that have become more critical for Tunisia's resilience. The reforms build on policies supported by previous DPFs and complementary advisory services and analytics (ASA), including a White Paper on Strategic Reforms (jointly prepared with the EU and EBRD). These ASAs have allowed the identification of prior actions and phasing of reforms during intensive dialogue between the government and the WB.

48. **The preparation of the proposed operation has involved intensive engagement to build a pro-reform coalition for the urgent actions needed to tackle the COVID-19 crisis and the deteriorating economic and social situation.** In particular, strong consensus emerged around: (i) rapidly strengthening safety nets; (ii) reforming SOEs; and (iii) improving efficiency in sectors and areas that are critical for economy-wide productivity (port and logistics, electricity, digital payments, access to finance).

49. **The operation was prepared building on a donor platform to support Tunisia's reforms, leverage more financing and improve its predictability.** The Tunisia donor platform on reforms is composed of the main multilateral and bilateral donors active in the country and was established following a high-level mission in mid-2018 (led by EU

[21] Cf. Box 1. - "Government and Central Bank Measures to Support the Economy during the Covid-19 Crisis (as of mid-May 2020)"

Commissioner and WB Regional Vice President for Middle East and North Africa region). This platform, coordinated by the WBG and the EU, has supported intensive policy dialogue with the successive governments since mid-2018. Building on this platform, and in close coordination with the EU, the WBG/KfW/JICA/AFD/AfDB have prepared parallel and complementary policy-based operations based on a three-year policy matrix prepared jointly with the government. This proposed operation is fully aligned with three of the four pillars of the joint policy matrix.[22] Moreover, the five partners have committed to sequence approvals and disbursements in a way to ensure progress on reforms over time but also to enhance predictability of financing for the government. While the EU is not following this disbursement arrangement, its support to the joint program provides significant additional leverage given its financing commitments to Tunisia. The detailed joint policy matrix approved by GoT which includes all the reform actions supported by this program is included in Annex 7 (the annex focuses on 2020 only for the ease of presentation).

50. **The DPF focuses on three policy areas:** (a) strengthening resilience and inclusion; (b) enabling private sector recovery; and (c) improving transparency and performance in the SOE sector.

4.2. PRIOR ACTIONS, RESULTS AND ANALYTICAL UNDERPINNINGS

51. **The policy and results matrix as described in Annex 1 includes nine (9) prior actions and twelve (12) triggers.** This section provides a detailed description of the reform agenda in the three policy areas and the specific prior actions supported by the proposed operation.

Pillar 1. Strengthening resilience and inclusion

Prior action #1: *To enhance the capacity of the social protection system to respond to the COVID-19 crisis and future shocks, and improve household resilience: (a) the Borrower has expanded cash transfers as part of the immediate COVID-19 response pursuant to Law-Decrees No. 2020-3 and 2020-4, dated April 14, 2020 published in the Official Gazette No. 32, dated April 14, 2020; (b) the Borrower has approved Decree (Décret Gouvernemental) No. 2020-317, dated May 19, 2020 and published in the Official Gazette No. 45, dated May 20, 2020 setting the eligibility criteria and delivery procedures of different services under the AMEN Social Program; (c) the Minister of Social Affairs has issued Minister Order (Arrêté) dated May 19, 2020 and published in the Official Gazette No. 45, dated May 20, 2020 adopting the use of a new targeting model; and (d) the Borrower's Council of Ministers has issued a decision on May 7, 2020 to integrate additional social services in the AMEN social registry.*

Trigger #1: *To improve the adequacy and efficiency of cash transfers and health insurance for poor and vulnerable households: (i) the government will update the amount of the cash transfers (permanent or temporary) on the basis of an evaluation by the Ministry of Social Affairs; and (ii) new digital health insurance cards for social assistance beneficiaries will be issued.*

52. ***Rationale:*** The government has succeeded in putting in place an emergency response that provides temporary cash transfers to a large proportion of the vulnerable population including people working in the informal sector. However, continued policy reforms are necessary to improve the capacity of the social protection system to respond to this and future shocks and improve households' resilience. The new AMEN social registry provides the GoT with the framework to implement cash transfers to poor and vulnerable households by facilitating the expansion (vertical and

[22] While all partners commit to support the broader government reform program, including through joint policy dialogue and implementation monitoring, prior actions/triggers and financing can either cover a subset of measures across the whole program (the approach of the World Bank) or a focus on one sector or reform area.

horizontal) of existing cash transfer programs. However, COVID-19 crisis has highlighted gaps and limitations in the ability of Tunisia's existing infrastructures to deliver rapid support to all households and individuals who are impacted, due to the fragmentations of existing programs and the absence of a common social platform for program delivery. In fact, the absence of a common vison represents a major challenge to use the existing social protection system to build and protect household resilience to covariate shocks and protect and foster human capital and the capacity of poor people to participate in productive activities. In addition, the current cash transfer program uses a highly complex targeting mechanism[23] and lacks the information on types of categories of vulnerable households including informal sector workers. The operationalization of developed tools is very important to strengthen the social safety net as it allows for a targeted expansion of social assistance programs. Finally, before the COVID-19 crisis, the cash transfer program had a limited coverage (8-9 percent of the population or about 260,000 households, compared to a poverty headcount of about 15 percent).

53. These reforms are fully consistent with a broader strategy to establish a national Social Protection Floor. The government launched efforts to redesign the SSN system with the aim of achieving greater transparency, equity and efficiency in social assistance programs and expanding their coverage. In January 2019, a legal framework (*Loi Organique AMEN Social*) for social assistance was approved by Parliament. This law defines the key principles of SSN and the role of the Ministry of Social Affairs and new approaches on identification and targeting using transparent, objective and equitable criteria (Chapter 1, Article 2).

54. ***Policy reform:*** The WB has supported this reform process through a number of previous interventions (MENA Transition Fund, TA) and DPF (2018 Tunisia Investment Competitiveness and Inclusion DPF) which resulted in the preparation and approval of the AMEN Social Law. The objective of the prior action is to ensure rapid effective implementation of the new integrated social program AMEN. The Ministry of Social Affairs (MAS) has also developed a new Management Information System (MIS), as well as a new administrative process including a grievance redress mechanism which will start operating after the legal texts of the AMEN Social Law will be issued. To respond to the COVID-19 crisis, the government has implemented emergency social measures aimed at expanding cash transfers to a large proportion of the population including people working in the informal sector and additional vulnerable households (see Box 1). Moving forward, the government is committed to using a new targeting method (proxy means test) prepared by the Center of Research and Social Studies (Centre de Recherches et d'Etudes Sociales, CRES) in close coordination with the National Institute of Statistics (INS) and the MAS. The identification and registration[24] of households, as well as the new targeting mechanism and grievance redress system will serve as the backbone of the future expansion of social assistance programs while ensuring fiscal soundness and effectiveness. The government is committed also to progressively expand the cash transfer program and social safety net services. The Ministers of Social Affairs and Finance have issued two joint Ministerial Orders which: (i) establish the amount of permanent and

[23] CRES with support of African Development Bank developed in 2017 a performance evaluation of SSNs in Tunisia. The report is available online: http://www.cres.tn/uploads/tx_wdbiblio/Rapport_CRES_mai_2017.pdf. According to this report, about 50 percent of cash transfer (PNAFN) beneficiaries belong to the poorest decile. However, the methodology used in the report might have overestimated targeting accuracy as it might have induced a recall biases in the interviews. The 50 percent targeting accuracy reported in the report should therefore be interpreted as an upper bound.

[24] In terms of coverage, the cash transfer program (PNAFN) covers about 9 percent of the population (with monthly transfers amounting to TND 180 per family and TND 10 for each child between 6-18 years of age with a maximum of 3 children). These households receive also a free health services program (AMG1). The reduced-fee health services program (AMG 2) covers about 21 percent of the population. AMG1&2 programs currently lack a systematic authentication mechanism of beneficiaries and are paper based.

temporary cash transfers; (ii) expand child benefits to children from poor household between 0 and 5 years of age; and (iii) remove the limit on the number of eligible children per household [25](previously set at 3).[26]

55. The social protection reform will also lead to better understanding of the gender gap and promote gender equality. Specifically, the expected positive gender impacts are threefold: (1) improved gender statistics: currently, the available statistics on the share of female beneficiaries (i.e., 54 percent for PNAFN and 14 percent for AMG2) are based on a sample of 6,000 households only. The AMEN social registry is expected to cover all beneficiaries (900,000 households) and will hence be able to produce reliable statistics with gender disaggregation for all household members; (2) improved access to social assistance by women: the new decree on the eligibility criteria for social assistance programs explicitly stipulates that the request can be submitted by women (Article 11 of the eligibility Decree No. 2020-317); and (3) modified eligibility criteria: the current process of selecting beneficiaries is highly complex and gender is not one of the selection criteria. The new targeting model incorporates, among other aspects, gender as a determinant of household welfare.

56. In addition, the new approach underlying the AMEN social program is expected to improve coordination across several social protection programs and services and facilitate the implementation of an integrated social protection system. Additional social programs (such as "ouvriers de chantier", a cash for work program, and several social programs by the Ministry of Education) will be integrated with the national social registry (AMEN social registry). The integration of these programs will be implemented by December 2020. The Higher Council for Social Development will be established by December 2020 to oversee the effective implementation of these services. This Higher Council will pilot also the integration of additional services related to economic inclusion and human capital development that will help to support the resilience capacity of the poor and near poor to prepare, cope and respond to current and future crisis.

57. **The proposed trigger aims to improve the adequacy and efficiency of social assistance through the following actions:**

(i) **Based on an evaluation of the Ministry of Social Affairs, *the government will update the amount of the cash transfer***. The government may adjust the benefit level based on an evaluation of household needs and given the economic and social context.

(ii) ***The new digital health insurance cards for social assistance beneficiaries will be deployed per decision of the Minister of Social Affairs.*** This decision aims to replace the current AMG1/2 paper cards (which are prone to tampering) by new cards which use exclusively the new QR code-based technology. The new cards will be issued based on the same national health insurance fund (CNAM) system which will ensure mobility between contributory and non-contributory (i.e., social assistance) schemes.

58. ***Expected results:*** The AMEN social register will cover households who are or would be potential beneficiaries of social protection programs or temporary social assistance so that the registry could be used effectively in times of crisis. Integrating more programs into the AMEN social registry is a concrete step forward for Tunisia to transform multiple databases into a common social registry. The operationalization of the reform process and the effectiveness of new tools (MIS, targeting tools) will further strengthen the MAS ability to put in place a more comprehensive SSN

[26] The amount of the permanent child allowance is fixed at TND 10 per child per month. Even if the amount is small, this can be considered as a first step for the progressive establishment of a universal child grant.

which would respond rapidly to the negative impact of crises (epidemiological outbreaks, conflicts or from climate change etc.) on poor and vulnerable populations. The response will require an expansion of the SSN to cover at least 15 percent of the population by 2022 with a permanent or temporary cash transfer (in line with the official poverty rate), and the inclusion of special support to help rebuilding assets and livelihoods, by providing access to services related to economic inclusion and human capital development under the AMEN social program. The integration of economic inclusion programs such as public works program, managed by the Ministry of Development, Investment and International Cooperation (MDICI) and human capital development program managed by Ministry of Women, the Family and Children and Ministry of Education will help poor and vulnerable households to protect and rebuild their human capital and assets, while supporting effective livelihoods. The expected result an increase in the coverage of cash transfers (permanent or temporary) as a share of the total population from 9 percent (2019) to 15 percent (2022). Given that the poverty headcount is around 15 percent (2015), this corresponds to an increase in a share of the poor population from 60 to 100 percent.

59. ***Climate co-benefits***: The reforms to social safety nets stand to benefit Tunisians in comparable outbreaks or other disaster events, including from climate change. Typically, informal workers and the poor or near poor are most vulnerable to economic shocks, whether from outbreaks like COVID-19 or climate hazards. Additionally, social safety nets help the poor and near poor build resilience in the long run. A social safety net, and particularly cash transfers, help beneficiaries build financial buffers to support their access to necessary health services or other essential services in times of need. Furthermore, these transfers are essential to building children's and youth's resilience, through allowing adequate nutrition, opening access to health services to forestall malnutrition or other conditions that might induce developmental deficits, which are known to cause irreparable damage to health, cognitive abilities and economic prospects in the long run. Efforts to establish a comprehensive SSN can immediately and effectively provide relief and resilience to vulnerable populations in the event of adverse climate impacts.

Prior action #2: *To establish the legal framework for citizen digital identification and interoperability for better and more efficient service delivery (of social programs in particular), the Borrower: (a) has enacted Law-Decree No. 2020-17 dated May 12, 2020 on Unique Citizen ID ("Identifiant Unique des Citoyens" or "IUC") published in the Official Gazette No.41 dated May 12, 2020; and (b) has adopted Decree No. 2020-312 dated May 15, 2020 and published in the Official Gazette No.43, dated May 15, 2020, setting the objectives of the IUC, its content and technical specifications to define authorized user agencies and the purposes for their use, and to define the protocol and process interoperability related to the IUC.*

Trigger #2: *To improve citizen digital identification and interoperability, the IUC registry will be effectively deployed and implemented in priority programs including social protection, taxation, education and justice.*

60. ***Rationale:*** The COVID-19 crisis in Tunisia has exposed the limitations of existing systems, including the need for a digital identification verification mechanism which covers all the population and works across programs, which is an essential mechanism to effectively deliver relief programs for all affected people. For example, the MAS database currently covers only current social assistance beneficiaries and uses its own ID, which is envisaged to be eventually linked with the IUC once it becomes operational (see Box 2 on the architecture and objectives of the IUC). With the objective to provide support to a larger population affected by the ongoing health, social and economic crisis, the government has already launched new registration mechanisms, including a simplified process for the poor who are not currently covered by social assistance programs as well as an online platform dedicated to self-employed workers. This reinforces the unprecedent need to accelerate the rollout of the IUC which is a fundamental tool to verify the identity of the citizens across different databases. With the improved identification system, the government will be

able to better detect duplications of applicants across programs, hence achieving more efficient and equitable distribution of public resources, including social assistance programs.

61. ***Policy reform:*** The National Strategic Plan for Digital Transformation (Tunisie Digitale 2020) and the SmartGov 2020 Strategy aim at using digital technologies to accelerate socio-economic development, including the digital identification and authentication. The government has proceeded with the adoption of a specific law on Unique Citizen ID (Identifiant Unique des Citoyens (IUC)) using emergency powers granted by Parliament (through Article 70 of the 2014 Constitution) that allows it to legislate through Decree-Laws (enact laws through exceptional Government Decrees). The government has also adopted the implementing regulation of the IUC through a Government Decree. This marked a significant acceleration in the establishment of the legal framework for the IUC. This law has been validated by the Higher Council of Digital Economy (Conseil Supérieur de l'Economie Numérique, CSEN). The Decree-Law and a related decree have been elaborated and validated by the National Authority for the Protection of Personal Data (INPDP). Its passage is essential for the implementation of the IUC, digital identity and interoperability, and the creation of new digital registers and systems that store personal data across government entities (e.g., MAS). IUC adopts a privacy-by-design approach by limiting the exposure or proliferation of the unique number in the management information system of sectoral programs. The government envisages to print/use an encrypted form of the IUC (QR code) for some official documents. These technical aspects are very important to ensure an effective and rapid implementation of the IUC while respecting personal data protection. In addition, the government plans to develop and implement a campaign for change management and communication around the IUC to mitigate risks.

62. At this stage IUC covers only Tunisian citizens. Legislation may change in the future to give rights to non-citizens, including migrants and refugees. A reliable identification system will be essential to deliver efficient services to them. Technically, this evolution can be supported by the IUC. However, this will require establishment of processes to issue IUC numbers to non-citizens.

63. ***Expected results:*** In addition to the implementation and use of IUC in other sectors (e.g., health, employment and women, disaster relief), the government will ensure that citizens have access to their data and transactions via a web portal as stipulated in the Law. The improved digital identification and authentication will be an essential enabler to achieve more effective and efficient service delivery, including social protection programs and allow for the development of new targeting models and eligibility criteria for other events, whether epidemiological outbreaks or climate-induced events. The number of sectors/ministries where the IUC is implemented will increase which will facilitate system interoperability and a systematic data exchange. The proposed result indicator is the share of social assistance beneficiaries/applicants with verified (reassessed) welfare status. This indicator measures the percentage of those who are in the AMEN social registry and whose welfare status is verified (at least) annually based on data collection or civil registry or other relevant administrative data using the IUC and through an interoperable platform. The baseline is zero percent and the target is 80 percent by 2022.

64. ***Climate co-benefits***: The harmonization of databases and improved identification as proposed by this prior action allows for the faster identification of communities in need in the event of adverse climate impacts as climate vulnerability data is included in the information system. This will allow for faster, targeted deployment of assistance in post-disaster scenarios.

Box 2: Architecture and Objectives of IUC system and RIUC database

The IUC (*Identifiant Unique Citoyen*) aims to create a national reference system that represents an "authoritative source" of information regarding a person's identity and to facilitate data exchange.

The IUC will be a back-end record locator stored in the RIUC database. Sectoral identifiers will be mapped to the IUC within the RIUC database. This is a deliberate design—enshrined in the IUC's enabling legislation—to protect privacy by limiting the proliferation (and potential misuse) of the unique number. Under this architecture, the RIUC will facilitate identity verification and communication across sectoral systems by acting as a central translator. For example, if the social sector needs to verify a child's school enrollment, it could send a request to the RIUC along with the social identifier, and the RIUC would map this to the student identifier in order to facilitate the query. With this functionality, the IUC system has the potential to help rationalize and simplify the management of various identity registers, reduce instances of identity fraud, and simplify administrative procedures for citizens, while limiting the distribution of the IUC itself. In addition, the system will include platforms for public administrators to query the database, and a citizen access portal for oversight of their data.

The initialization of the RIUC database starts by cleaning and deduplicating copies of core attributes for all citizens from the National Identity Card (CIN) and Civil Register (Madania) databases and then reconciling the two. The law on civil registry was adopted in 1957 after independence, making the registration of birth and deaths compulsory and establishing the right to obtain proof of vital events. Tunisia has a strong civil registration system and the Civil and Madania database have a high birth registration rate (99 percent). This will provide for a good coverage in the RIUC database. The project will create permanent links with both systems so that the RIUC remains updated with (1) new births, (2) deaths, (3) new family structures (including marriages, divorces, and children), (4) changes or edits in civil registry information, and (5) new CIN numbers. In addition, the RIUC will be linked to a Ministry of Justice database in order to synchronize attributes related to legal status and it will include a mapping of IUC numbers to sectoral identifiers to facilitate inter-sectoral identity queries. Finally, the RIUC database will seek to collect climate vulnerability datapoints (e.g. rural households; vulnerable urban populations) and incorporate and thus allow to incorporate this information into the identification system.

Prior action #3*: To enable affordable and secure digital payment transactions, the Governor of the Central Bank of Tunisia has signed Circular No. 2020-11 on May 15, 2020 and published on May 18, 2020, specifying the terms and conditions for offering mobile payments and the requirements for the interoperability of payment systems.*

Trigger #3: *To improve the supervision of digital financial services, the Governor of the Central Bank and the Minister of Communication Technologies and Digital Transformation will sign a Memorandum of Understanding on the supervision of financial activities, including digital payment services, of La Poste.*

65. ***Rationale:*** Financial inclusion is an important enabler for eradicating extreme poverty and promoting inclusive growth. As an important step towards greater financial inclusion, Tunisia has successfully implemented a framework for transaction accounts with the creation of payment institutions (*établissements de paiement*) since 2016. The COVID-19 crisis accentuated the urgency to accelerate the deployment of market solutions for a contactless distribution of relief payments or social benefits. It is also critical to promote the usage of digital payments, so that people that received digital payments would use them in daily transactions, without the need to cash out, hence adhering with social distancing. It is therefore critical to rapidly strengthen regulations for a widespread adoption of e-money transactions in Tunisia (similar to the rules already adopted for checks or credit transfers).

66. To attain widespread, efficient and secure digital payments, Tunisia will also need to strengthen interoperability of payment systems and ensure continuity of service in disaster scenarios, such as hazardous climate events.

Interoperability allows for optimal use of the infrastructure deployed by allowing more transactions to be undertaken, leading to a better return on investment, and a reduction in transaction costs for all stakeholders due to positive network externalities. An interoperable payment infrastructure also provides a seamless payment experience to customers across service providers, without requiring them to have accounts with the exact same institution. Currently, there is no interoperability between the various mobile payments offers in Tunisia, and no interoperability between the banks and *La Poste* for card transactions and mobile payment transactions. With the COVID-19 crisis, interoperability has emerged as a pressing requisite to increase the uptake of digital payments.

67. Moving forward, the digital payment ecosystem will need to be more comprehensively regulated by the banking and financial sector regulator, the BCT. Currently, the financial services offered by *La Poste* are not appropriately regulated, supervised or overseen by the BCT. This situation creates an uneven playing field between payment service providers since most of them are subject to the regulation and requirements issued by the BCT in the context of its statutory mandate to create a safe and efficient national payments system in Tunisia, while *La Poste* can issue payment instruments and offer payment services without complying with the regulation issued by the BCT. This situation introduces not only a competitive bias vis-à-vis other payment services providers, but also a risk factor (since *La Poste* is not bound to comply with the same standards and requirements). Fair competition and equal treatment of all players offering mobile financial services is key for the development of digital payments in the country. The COVID-19 crisis has illustrated both the critical role of *La Poste*, and the importance of a unified financial sector, with full interoperability between the various providers under the catalyst role of the BCT as per its mandate to regulate and oversee the national payments system.

68. ***Policy reform****:* The Governor of the BCT has issued Circular No. 2020-11 of May 15, 2020 that specifies the terms and conditions for offering mobile payments and the requirements for the interoperability of payment systems. As part of the overall de-cashing and financial inclusion strategy, this circular is an important reform towards digitizing an otherwise heavily cash-based economy. The circular does this by: (i) providing the terms and conditions for offering mobile payments including definitions of and roles/responsibilities for establishments (including, but not limited to banks, non-bank payment institutions and the Postal Service), transactional details such as back-end clearing of payments, consumer rights in cases of security breaches or fraudulent mobile transactions, debit and credit transaction reconciliation among other key elements of establishing an ecosystem conducive to mobile payments; and (ii) mandating interoperability of payment systems which is critical in ensuring the widest consumer choice possible by eliminating costs to the consumer of utilizing different payment system providers. Lack of these reforms had been preventing a broader use of mobile payments in Tunisia. Given the significant changes brought by the circular, it needs to be accompanied by a strong information campaign, including a COVID-19 compliant and adhering to socially distancing workshop (possibly online) to inform the financial sector ecosystem of the reforms.

69. The trigger involves the Governor of the BCT and the Minister of Telecommunications signing a Memorandum of Understanding (MoU) on the supervision of financial activities, including digital payment services, of *La Poste* thereby allowing Tunisia to comply with international best practices.[27]

70. ***Expected results:*** The reform actions are expected to promote a sound and rapid development of digital payment services in Tunisia. G2P digital payments are expected to increase, particularly in social security and social

[27] In the medium term, the law governing *La Poste* and the banking law will need to be amended to place the financial services provided by *La Poste* under the regulation, supervision and oversight of the BCT.

services. The proposed result is the increase in digital payment transactions (in percent, annual) from a baseline of 15 percent in 2019 to 20 percent by 2022.

71. ***Climate co-benefits:*** The benefits of digital payments will be long-lasting as they allow for the private sector to develop financial and insurance products for those population groups and firms which are traditionally considered non-bankable. This will increase beneficiaries' resilience to climate shocks by providing liquidity in the form of transfers, credit or insurance payouts, all of which help to withstand and recover from adverse disaster impacts and build resilience in the long run. Also, digital payments allow the public sector – particularly in conjunction with enhanced social safety nets and a mapping of multidimensional vulnerabilities of the population, such as climate or epidemiological vulnerabilities as per prior actions #1 to #2 -- to swiftly target and deploy financial and other assistance to affected populations in other crises and disaster scenarios. This will especially apply to parts of the country without adequate infrastructure or where such infrastructure has been destroyed. The climate resilience of beneficiaries would thereby increase. Further, the interoperability of digital payment services ensures the resilience of the digital payments network infrastructure and services to operational disruptions at the level of individual providers. Finally, the requirement to incorporate climate hazards into system design to ensure continuity of services also improves climate change adaptation of these services.

Prior action #4: *To improve access to credit of enterprises and microfinance institutions affected by the COVID-19 crisis, the Borrower's Minister of Finance and the Société Tunisienne de Garantie (SOTUGAR) have signed an Agreement (Convention) dated May 11, 2020 as amended on May 19, 2020, that implements a new partial credit guarantee fund scheme and sets the operating principles ensuring financial sustainability and rapid deployment.*

Trigger #4: *To strengthen and promote the development of the microfinance sector, the financial and supervisory authorities will take actions to align the legal and institutional framework on best practices including regarding supervision modalities, diversification of funding sources and savings mobilization.*

72. ***Rationale:*** There is a wide consensus that access to appropriate financial products and services helps people and firms better manage their lives, plan for emergencies, and improve their livelihoods. It increases their resilience to crises such as COVID-19 outbreak by helping manage income shocks and mitigate risks.[28] Tunisia, however, suffers from limited financial inclusion and access to finance, particularly for very small businesses and self-entrepreneurs, and this is constraining formal employment but also leaving them at risk of not being able to recover in the event of a financial shock. Female entrepreneurs are more likely to report access to finance as a severe business constraint[29] which may limit their ability to cope with the impact of the crisis and recover during the post-crisis period (WB 2020 Policy Note on Gender Dimensions of the COVID-19 Pandemic).

73. The activities of Tunisian firms are being heavily impacted by the COVID-19 crisis. This multi-faceted shock is affecting their liquidity, reducing sales (turnover), outputs and investments. It is threatening widespread workers' layoffs and closing of otherwise healthy firms. The lockdown introduced in March 2020 as a necessary public health measure severely reduced supply of labor and provoked supply chain disruptions. This supply shock was exacerbated by another shock on the demand side of the labor market as there was no more demand for key sectors of the economy in Tunisia, such as tourism and transportation. This economic slowdown could be worsened by secondary effects due to a decrease in consumption arising from jobs losses and a decline in earnings and consumptions. During this initial

[28] This is in addition to financial inclusion roles in addressing poverty, by facilitating social transfers, leveraging government to person payments, enabling safe savings and providing low cost access to transaction accounts.

[29] About 36 percent of firms with a female top manager vs. 22.8 percent of firms with a male top manager; also, recent loan application was rejected for 30.4 percent of firms with a female top manager vs. 3.6 percent (source: Enterprise survey for Tunisia, 2013).

phase of the crisis outbreak, there is an urgent need to address immediate liquidity challenges, reduce layoffs, and avoid firm closures and bankruptcies. However, in a context of high levels of risk aversion affecting financial intermediation negatively, funding constraints of private sector firms are increasing.

74. Among the key measures that have been announced by the authorities to assist firms and preserve employment during the crisis, the Ministry of Finance is launching a new public credit guarantee scheme. The main objective is to stimulate bank lending to help firms keep paying workers and suppliers and MFIs face their working capital needs. Such schemes have shown to be more effective than other distortionary interventions (e.g., directed lending, subsidized loans etc.) and will play a countercyclical role while helping maximize the impact of scarce public resources, such as in Tunisia, through mobilizing private sector financing.[30] The program is launched to support all affected enterprises (including SMEs but also larger firms) and will be implemented through SOTUGAR. It guarantees new working capital loans or credits for operations and management covering various sectors of the economy.[31] SOTUGAR manages several guarantee programs, including partial guarantees to banks that lend to SMEs. SOTUGAR has built its capacity over the years and is in a process of launching new portfolio guarantee products for SME lending with the support of the World Bank. Although SOTUGAR has considerably improved its operating procedures, one issue that has affected its outreach has been its lengthy procedures in guarantee appraisal and payment of claims. This challenge might be amplified in the context of reduced working hours due to COVID-19 outbreak, unless simplified and efficient mechanisms are adopted. A key consideration in this phase is therefore providing support that is rapid, broad-based, transparent, and time bound while limiting potential fiscal risks. The COVID-19 guarantee program is capitalized with TND 100 million using existing resources available from the National Guarantee Fund. A stop-loss mechanism is introduced to cap losses of the fund and a financial model will be developed to provide projections of volumes, risks and profitability of the fund according to various assumptions on leverage, coverage ratios, defaults and so forth.[32] To foster resilience and inclusion, microfinance institutions will also be eligible to benefit from the new partial credit guarantee scheme for their working capital needs.[33]

75. The COVID-19 crisis is also bringing to light the urgent need to accelerate long-awaited structural reforms for the sound development of the MFI sector and its ability to better weather crises. These include aspects related to the diversification of MFIs funding sources, their ability to mobilize savings, and their supervision. Indeed, in 2011 a dedicated supervisory body for the microfinance sector (*Autorité de Contrôle de la Microfinance*, ACM) under the Ministry of Finance was created. This reform paved the way for the emergence and growth of (for-profit) microfinance institutions, MFIs (seven active). Further changes to the legal and institutional frameworks,[34] including through the draft financial inclusion law (currently in the Parliament) would allow MFIs to gradually build their capacity in savings mobilization by providing banking intermediation services. The lifting of restrictions on deposit-taking for MFIs – which

[30] Partial credit guarantee schemes have been identified as one of the most market-friendly types of interventions in support of access to finance to underserved segments. Through the provision of risk mitigation tools, these schemes help leverage private financial sector resources with an incentive for banks to enter the underserved markets, especially in crisis periods.

[31] The Decree-Law creating this fund was published on April 16, 2020. The eligibility criteria for this fund are determined by the government decree No. 2020-308 published on May 8, 2020 which defines affected enterprises that can benefit from the authorities' fiscal and financial measures in response to COVID-19 crisis. Eligible credits would be granted by the banking sector before December 31, 2020 for a duration of up to 7 years (including two years of grace period).

[32] The current rough estimates of defaults are about 15 percent.

[33] The COVID-19 crisis is affecting the microfinance sector with liquidity issues and credit risk as the biggest concerns for MFIs. With the shift in their operating environment caused by COVID-19 outbreak and the moratorium imposed by the authorities, the liquidity constraints that MFIs were facing over the past 2-3 years have amplified, especially as they cannot also easily access bank credit to cover their operating costs.

[34] As part of the "Vision concertée pour le développement de la microfinance" 2011-14.

would also involve changes in the supervision framework – will help lower their cost of financing and improve the sector's financing of income-generating activities and employment.

76. ***Policy reform:*** The prior action supports immediate liquidity needs of otherwise healthy firms without restrictions on firm size and any particular focus on specific sectors.[35] The reform will also support MFIs access to working capital to face and recover from the COVID-19 crisis. It clarifies the operational modalities of the deployment of the COVID-19 guarantee program such as the coverage ratios and the advance payment of compensations.[36] This is key during this crisis so as to attract private banks into the system, particularly with limited resources available in Tunisia. The operational modalities ensure the support will be rapidly deployed, i.e. appraisal and call on guarantees will rely on a transparent, efficient and rapid mechanisms which are clearly defined in a framework convention ("convention cadre") signed with partner banks and agreed upon by SOTUGAR and the bankers' association. In line with the government decree defining affected firms, applicants will first need to apply through the government newly-launched electronic platform to obtain the status of affected enterprises.[37] The SOTUGAR will delegate the guarantee appraisal to the partner banks and upon calls for guarantees, will have a maximum of thirty (30) days to verify a list of criteria defined in the "convention cadre" before releasing the advance payment of compensations. The remainder will be decided and released once all the litigation procedures have taken place. The reform also aims to limit the risks as such interventions lead to excessive risk build-up with due considerations given to the program's outreach, additionality and financial sustainability. This includes management of related fiscal risk through the introduction of a stop-loss mechanism of 20 percent.[38]

77. The trigger will support the medium-term modernization of the microfinance sector, a key sector for formal support to income-generating activities of Tunisian microentrepreneurs, by encouraging the authorities' decision on the best course of action and roadmap. Currently, MFIs play an important role in productive economic inclusion in Tunisia. More than 71 percent of microcredit lending is for income-generating activities, particularly for women and youth, who account for 55 percent and 26 percent of microcredits, respectively. The trigger will ensure opportunities for microcredit lending are particularly benefitting women by setting a specific target for the share of female beneficiaries and reducing the existing gender gap in financial inclusion. Microcredit also provides a stepping stone for micro-borrowers to join the formal and modern sector and eventually access capital and other financial products for their business ventures.

78. ***Expected results:*** Without timely support and rapid deployment of the public credit guarantee program, the initial phase of the COVID-19 outbreak may durably harm the economy as otherwise-healthy firms and MFIs will be shuttered due to liquidity challenges and jobs permanently lost. About 1,200 firms and between 5 to 7 MFIs, including women-led or managed firms, are expected to be reached with the COVID-19 guarantee program for a volume of TND 350-500 million guaranteed loans. Potential additional top-ups of the guarantee fund by other financiers (including donors) would increase its reach.[39] The result indicator for the proposed operation is the volume of loans for firms

[35] Firms with category 4 loans (loans with overdue payments of more than 360 days) are not eligible to the COVID-19 guarantee scheme.
[36] Coverage ratios are between 70 to 90 percent depending on firms' turnovers (as a proxy for risks) and 80percent advance payment of compensations is envisaged.
[37] Decree No. 2020-308 published on May 8, 2020. Applications need to be received by May 30, 2020 through the electronic platform https://entreprise.finances.gov.tn/ Applicants will receive their eligibility as "affected enterprises" through the platform. This information will be a condition for SOTUGAR and partner banks to continue the process for determining eligibility to the guarantee scheme (note that neither SOTUGAR nor the partner banks are responsible for monitoring the criteria of "affected enterprises" defined by the government decree and verified through the platform. These criteria include notably the obligation for affected enterprises to maintain employment).
[38] 20 percent (compensation minus recovery)/ (outstanding loans*coverage ratio).
[39] KfW has expressed interests in participating in the capitalization of the fund.

covered by the new partial guarantee scheme with a baseline of TND 0 million in 2019 and a target of TND 500 million in 2022. A disaggregated indicator on loans for MFIs covered by the new scheme will also be monitored, with a target of TND 5 million by 2022 given that there is a loan ceiling of TND 1 million per institution and five of the seven licensed MFIs (as of 2020) are projected to benefit from the new scheme.

79. In the medium term, trigger #4 will support structural reforms that aim at improving MFIs' access to more diversified funding sources, including savings, strengthening their finances and increasing their lending operations. It will also help MFIs face crisis such as COVID-19 pandemic or climate-induced crises and transition the sector to less dependency from public and donor funding. In addition, MFIs would be able to reduce their funding costs which would benefit micro-borrowers through lowering microfinance costs and/or improving services. Given MFIs' focus on marginalized segments including on income-generating activities of the unbanked, particularly women, the reform area will have a significant impact on the most vulnerable segments while preserving employment. The result indicator proposed to measure progress in this area is the increase in the number of active micro-borrowers from 422,000 (2019) to 525,000 (2022). The result indicator will also report on the share of women as micro-borrowers, with their access to microcredit lending increasing from 55 percent (2019) to 56 percent (2022), therefore increasing their financial inclusion and narrowing the existing gender gap.

80. ***Climate co-benefits:*** This support to Tunisian firms will serve as a template for support measures during future crises, such as possible adverse climate impacts, and provide key lessons about the efficacy of instruments deployed. These lessons and processes put in place by these reform actions will ensure that future assistance can be delivered more effectively and faster. At the same time, the strengthening of Tunisian firms by way of this fiscal support ensures their resilience to other adverse impacts, including from climate change.

Pillar 2. Enabling private sector recovery

Prior action #5: *To improve trade and logistics performance at the Port of Radès, the Borrower has: (a) streamlined trade procedures for critical supply chains given the COVID-19 pandemic (including medicine, health equipment and food), pursuant to Joint Circulaire by Minister of Finance and Minister of Trade dated May 12, 2020; (b) digitized specific international trade-related procedures pursuant to DG Customs' Decisions dated May 14, 2020; and (c) provided the necessary space for container operations through the separation of container and roll-on/roll-off traffic and the future expansion of the port, pursuant to Amendment No. 2 to the Concession Agreement between Office de la Marine Marchande et des Ports (OMMP) and Société Tunisienne d'Acconage et de Manutention (STAM) dated May 14, 2020.*

Trigger #5: *To improve the Port of Radès efficiency, the Borrower will adopt a decision enabling port cost reduction, rather than maximizing revenues, through the future quays 6-7-8-9 concession to contribute to the country's economic competitiveness.*

81. ***Rationale:*** In the context of its response to the COVID-19 crisis and subsequent recovery, Tunisia has committed to accelerate measures to: (i) increase the resilience of essential international supply chains including goods and equipment to fight against the sanitary crisis; and (ii) improve the global efficiency of its ports and logistics sector, including increasing energy efficiency and emission reduction. These measures include: (i) provisions to ensure continuity of operations at the port of Radès under social distancing and reduced staff constraints, (ii) trade facilitation instructions to speed up the transit of essential imports, and (iii) private sector participation in port management and operations in order to introduce international logistics best practices.

82. Tunisia's performance in the transport and logistics sectors has been declining since 2012 according to the World Bank Logistics Performance Index (LPI). Further, Tunisia faces a high cost of freight transport. Delays in maritime transport, and particularly in the country's principal port, the Port of Radès, create costly delays for firms importing and exporting to/from Tunisia. A World Bank report dated 2015 estimated that the recurrent inefficiencies in the port operations at Radès amount to US$300 million per year. Finally, although a Port Community System (PCS) called ''Liasse Transport'' has been set up since 2006 to digitize all foreign trade procedures via Tunisia Trade Net platform (TTN), only the ''Import Manifest'' has been set up. Many trade-related procedures remain paper-based and payments require physical presence, leading to delays and heavy bureaucracy for importers and exporters.

83. In addition, the container/Ro-Ro (roll-on/roll-off) terminal at the Port of Radès has been suffering from congestion for a number of years. This can be attributed to both inadequate infrastructure and equipment to accommodate and serve vessels calling at the port as well as management challenges. Container freight costs are high when compared to neighboring countries due to physical constraints (nine-meter draft limitation) and operational inefficiencies. Shippers apply a congestion fee in the range of US$250-300 per container to compensate for ship waiting time at port. There is also significant demurrage cost applied on containers due to the slow recovery cycle of containers.

84. ***Policy reform:*** To mitigate the economic impact of the COVID-19 pandemic, and in line with its Development Plan 2016-2020, the government has identified three priorities to support the private sector competitiveness and growth potential: (i) COVID-19 crisis measures to harness continuity and facilitate essential imports at the Port of Radès; (ii) digitization of new trade procedure and trade-related payments; and (iii) the Radès Port platform improvement. The latter will help: (a) reduce congestion at the country's principal port and allow for better organization of port operations, and (b) enhance private sector participation in port operations. As such, the government has started to explore ways and means of promoting and modernizing the port of Radès through: (i) procedures inherent in the formalities of the modes of operation and development of port infrastructure, and (ii) the differentiation between container and Ro-Ro activities with the creation of two specific stations, in addition to the commercial port extension project as part of a preliminary investment and operating project targeting the establishment of a profitable strategic economic partnership.

85. In addition, and to allow for improved logistics and transport for firms in Tunisia, the government has elaborated a comprehensive medium and long-term logistics development strategy which is articulated around five primary elements, including: (i) modernization and interconnection of infrastructure; (ii) organization of the transport and logistics professions; (iii) improvement of the legal and institutional framework; (iv) strengthening coordination in the logistics chain; and (v) attracting of logistics investments.

86. Finally, the digitization of export procedures through the ''Export Manifest'' has been added and will help accelerate trade procedures for exporters. Moreover, the government is firmly committed to finalize the deployment of the digital payment of customs ''duties and taxes'' and e-guarantees with banks by the end of 2020.

87. ***Expected results:*** In the context of the COVID-19 pandemic, efficient port operations are critical to ensure sustainability and resilience of essential international supply chains. The proposed measures will translate into time and cost savings for exporters and importers, as well as an improvement in firms' productivity and allocation of staff time. These measures will also alleviate the impact of social distancing and lockdown by allowing operators to process more transactions online. The physical separation of two distinct terminal activities at the Port of Radès will allow STAM

to operate better its Ro-Ro vessels in the Terminal 1[40], while a fully dedicated modern container terminal (Terminal 2[41]) operated through a profitable economic strategic partnership, established on a competitive basis. The expected result is reduced container dwell time from 18 days in 2019 to 15 days in 2022, and improved handling productivity from 8 containers/hour in 2019 to 12 containers/hour in 2022. Along with post-COVID-19 resumption of maritime traffic and activities, it is expected that increased port operations' efficiency and associated benefits would help position the Port of Radès as a strong competitor along the North-African shore within the next five to ten years.[42]

88. ***Climate co-benefits:*** Besides ensuring the resilience of international supply chains particularly with an eye to large-scale crises, the proposed prior action is expected to contribute to climate change mitigation through the reduction of energy consumption. Currently, the mixing of RoRo and containers vessels operations result in an excessive CO2 emission due to traffic standstill and lengthy circulation of trucks and trailers within a confined and fully congested area. Congestion results in constant stoppage and re-acceleration of vehicles, which is particularly fuel consuming, even more so when hauling 40-foot shipping containers. The adoption of logistics' best practices will reduce energy-intensive crane movements and optimize the routing of RoRo-traffic as well as of container operation vehicles, such as reach stackers. This will improve the flow of dock traffic, minimize unnecessary stoppage and reacceleration of vehicles, reduce wait time from standstills and lower their mileage thereby reducing fuel consumption and emissions drastically.

Prior action #6: *To support post-COVID-19 recovery by leveraging private financing for renewable electricity generation, the Minister of Energy, Mines and Energy Transition has issued Ministerial Order ("Arrêté") dated May 28, 2020 and published in the Official Gazette No. 48 dated May 28, 2020, and Ministerial Decision dated May 27, 2020, complementing Decree No. 105-2020 applying the Transversal Law (Law No. 2019-47), to set the conditions for private sector special purpose vehicles that generate renewable energy to sell power to its shareholders using Société Tunisienne de l'Electricité et du Gaz (STEG) transmission and distribution network.*

Trigger #6: *The Ministry of Energy, Mines and Energy Transition will issue: (i) a Ministerial Order ("Arrêté") setting the contractual framework between self-generators and STEG for the transport of power and the sale of excess power; and (ii) a Ministerial Decision revising the medium voltage transport tariff under the same self-generation scheme on the basis of a cost of service study (satisfactory to the WBG).*

89. ***Rationale:*** To enhance energy security, reduce the cost of electricity generation and imports of natural gas, which weigh heavily on the balance of payments, the GoT has a target of reaching 30 percent of renewable energy in its power generation mix by 2030. This is to be achieved through the Tunisia Renewable Energy (RE) Plan, which promotes private sector investment in RE through three schemes, one of which is self-generation by industrial, agricultural and commercial users. The other two schemes, concessions and authorizations, are making progress. The self-generation scheme, however, with a target of 210 megawatt (MW) by 2022, has been slow to be implemented and interest in this scheme has been limited. By now, only around 160 firms have obtained authorization to realize self-generation projects with a total capacity of approximately 26 MW. Main hurdles have been that self-generators could not join forces and build a single power plant to meet their needs, and STEG often has not installed meters to measure excess power that is provided by the self-generators to the national grid, hence the self-generators could not benefit from the sale of excess power.

[40] Quays 1 to 5
[41] Existing quays 6 and 7, and future quays 8 and 9
[42] As a comparator, all Tangier Med container terminals in Morocco are operating 24/7, 365 days a year, and have a handling productivity level of at least 30 movements/hour/crane.

90. In 2019, the government has enacted a transversal law (Law No.47-2019) on improving the investment climate, which, among other measures, authorizes firms to form a special purpose vehicle (SPV) to generate power to be transmitted through STEG's network and consumed by members of the SPV, while up to 30 percent of the power not consumed by the SPV (excess power) can be sold to STEG. The government, in February 2020, issued an application decree (Decree No. 105-2020) related to the transversal law to regulate the sale of RE from SPVs to members of the SPV through bilateral power purchase agreements (PPAs), and the excess to STEG. The government has adopted a ministerial order specifying the threshold for being an eligible member of such an SPV, and issued a ministerial decision establishing the tariff for third-party access to STEG's high-voltage network, and sales tariffs of excess power to STEG. As a trigger for a subsequent DPF, the tariff for third-party access to STEG's medium-voltage network will be determined on the basis of a cost of service study satisfactory to the WB. This measure is significant since it would open for the first time the sale of electricity to the private sector, thus advancing the sector opening beyond generation. The success of the self-generation scheme would also boost investment by and competitiveness of the industrial sector in the post-COVID-19 recovery period by lowering the cost of their energy inputs.

91. **Policy Reform:** To overcome current hurdles to private sector investment in RE self-generation, a number of concrete decisions have been taken by the Minister of Energy, Mines and Energy Transition to complement Decree No. 105-2020 and make it operational. These include specifying: (a) minimum power capacity threshold for being an eligible member of a RE self-generation SPV set at 1 MW, (b) the transmission tariff for using STEG's high-voltage network set at the equivalent of about 0.85 cents/kWh[43], and (c) sales tariff of excess power to STEG that was set at an average tariff equivalent to about 2.5 cents/kWh (weighted by time of day generation), corresponding to the alternative cost of procuring solar power from concessions based on recent offers received under that scheme. The obligation for STEG to measure excess power by time of day and the obligation for STEG to install new meters to measure power generated by the SPV, power consumed by its shareholders and excess power sold to STEG, with the cost of such new meters born by the self-generators, will be reflected in the contractual framework under the trigger.

92. The trigger aims: (i) to support the development of a transparent and conducive contract template (*contrat-cadre*) between self-generators and STEG for the transport of power and the sale of excess power, and (ii) to ensure that medium voltage level transmission tariffs under the new self-generation scheme are set on the basis of a cost of service to be validated by the WB. Without such a contract template, the new self-generation scheme will remain a theoretical possibility that is not attracting actual investments, thus depriving both industrial firms of a significant means of reducing the cost of energy supply and boosting the competitiveness of firms.

93. ***Expected results:*** This reform will enable Tunisian firms (essentially in the industrial sector) to boost investment in RE generation and reduce their cost of energy. The result indicator for this measure is the increase in private RE capacity developed under the self-generation scheme from 26 MW in 2019 to 180 MW of new capacity under development by 2022.

94. ***Climate co-benefits:*** The proposed trigger is expected to contribute to climate change mitigation by boosting the share of RE in Tunisia's energy mix. By encouraging private investment in renewable energy, the proposed prior action is expected to contribute to shifting energy production toward low-carbon technologies and reduce greenhouse gas (GHG) emissions, and is considered part of the MDB list of eligible mitigation activities under Category 9.1, "National policies/plans for scaling up renewable energy".

[43] Based on average US dollar/TND exchange rate in 2019 equal to 2.93, see Table 1.

Trigger #7: *To improve the efficiency of the air transport industry, the government will swiftly implement the first stage of an "Open Skies" regime with the European Union, which will provide third and fourth freedom rights to European and Tunisian carriers.*

95. ***Rationale:*** The global COVID-19 crisis has brought severe distress to all sectors of the world economy, with the tourism and aviation sectors registering the hardest hit, as world travel has come to a near stop. Based on IATA's estimations, latest figures are suggesting the grounding of over 60 percent of the world fleet and a drop of over 70 percent in load factors. The major challenges around the current situation are dictated by the uncertainty of when business will start its recovery path, and furthermore on how the traveler's behavioral response would be.

96. At present, North Africa is one the most affected region in Africa by the collapse of air transport in past months and Tunisia, like other North-African countries, especially so given the country's high dependence on European traffic and tourism. It is therefore now critical for Tunisia to develop a post COVID-19 crisis regulatory and economic framework to foster air transport growth complying with Safety, Security and Regulatory Oversight standards. In the immediate period, there is a very low expectation of mergers and acquisitions, as most carriers will focus on safeguarding their existing businesses (see Box 3 below).

Box 3: Tunisair – Business Protection Plan and Key Recovery Recommendations

The COVID-19 crisis hit the global travel industry at a time Tunisair was facing a longstanding weak and vulnerable financial situation. It has accumulated losses over several years and recorded financial losses amounting to US$34.4 million during 2019. Given the uncertainty in the timing and extent of recovery in the aviation sector[44], it is critical for the company to: (i) swiftly adapt to the current difficult sector context, (ii) lower its financial exposure, and (iii) re-think its short to long-term operations strategy.

A halt in business may be used by Tunisair to perform an ambitious reorganization by restructuring its operations, improve its balance sheet and reduce the need for state support. Public authorities would then need to prepare and further implement an Emergency Strategic Plan (ESP) to ensure Tunisair's safeguard. The urgent priority would then be to adjust to a viable operational business plan by focusing on: (i) network profitability (i.e. maintain the most profitable routes), (ii) fixed costs reduction, particularly the size of the fleet, and (iii) human resources optimization.

Considering Tunisair's current position vis-a-vis its financial resources and market situation, there is an immediate requirement to focus on two critical actions which include: (i) preserving the airline's value, thus its cash position and business viability through-out the crisis period, and (ii) preparing its recovery business plan to enable its adequate return to the restructured activities, once travel bans are lifted.

Recommendations on key immediate actions to tackle the company's difficulties would include: (i) preserve cash and secure credit lines and liquidity for a minimum of 3-6 months; (ii) redefine product to adapt to market's constraints; (iii) maintain required fleet airworthiness and crew licensing; (iv) redefine employment policy and retrenchment plan; and (v) evaluate cross-border consolidations through joint ventures.

It will be critical for the government to closely monitor and evaluate Tunisair's financial performance and, in the coming year, restructure the company based on an independent and rigorous assessment of the company's operations and prospects.

[44] There are multiple scenarios regarding the projected recovery of the aviation sector. One scenario evolves around the quicker resolution of the situation, with a vaccine entering the market in the immediate months, enabling the industry to reach its pre-COVID-19 pace by the end of 2021. An alternative scenario, likely given no clear outlook for a viable treatment or vaccine, is that the aviation will not recover until 2022-2024. Furthermore, there is a significant uncertainty on when businesses will recover and travelers' behavioral responses to the crisis (propensity to travel).

97. As of to date, the air transport sector in Tunisia is relatively closed compared to regional and international peers. This situation undermines the competitiveness, growth and job creation prospects of the Tunisian economy. A more open aviation sector would help Tunisia maximize the economic benefits of its strategic location in the Mediterranean basin, between the European, African and Middle Eastern markets. Making the sector attractive to strategic partners and private investors, considering in particular the effect of an "Open Skies" regime, is an important axis for promoting investment in the activity.

98. Opening access to the Tunisia air sector is therefore essential to support the country's air transport sector growth resumption. As a recommended path, as well as a best international practice, a (post-COVID-19) National Air Transport Policy (NATP), with a clear mandate for opening up access with Europe and other regions, could be prepared for such a purpose. Such a policy adjustment would support the implementation of the anticipated "Open Skies" agreement by: (i) adjusting the current national civil aviation framework, (ii) proposing options to ensure financial sustainability of all entities involved, and (iii) strengthening the execution of the Aviation National Plan. It would lead to resolving eventual legacy issues[45] and inducing the private sector and appropriate management increase their presence, bring capital, take more rights in shares. The government would need to provide the regulatory framework for such increased private sector participation. The government would facilitate that airlines continue establishing and building up a financially sustainable network and fleet and remove barriers that jeopardize airline cooperation and potential integration.

99. ***Policy reform:*** The government is committed to implementing an "Open Skies" agreement, concluded between the European Union and Tunisia in December 2017, but yet to be signed. The agreement is expected to introduce low-cost air links between these two destinations and, in so doing, provide an opportunity to improve airport and air service management. Therefore, the government would need to finalize its discussion with the EU and apply the agreement's principles. Consequently, the implementation of the "Open Skies" agreement will require various regulations and bilateral agreements (including 3rd and 4th freedom rights).

100. ***Expected results:*** The opening of access to the air transport market is expected to contribute to promoting competition in the sector with potentially significant positive impact on the attractiveness and competitiveness of the Tunisian destination and market. "Open Skies" agreements in neighboring countries have resulted in higher traffic and a boost to trade and tourism. The results indicator is the increase in traffic with the European market following the enactment of the "Open Skies" (in percent relative to the 2019 baseline) with a target of 7 percent based on available knowledge on the impact of similar "Open Skies" agreements and taking into account the challenges and uncertainty posed by the COVID-19 crisis.[46]

Trigger #8: To improve NPL resolution, the Council of Ministers will approve and transmit to Parliament a draft Law that will authorize transactions where a public bank has accepted a write-off (remise de dettes) based on defined objective criteria and ease the requirements for write-off transactions (radiation) across all banks.

101. ***Rationale:*** NPLs in Tunisia have consistently remained at excessive levels -- above 10 percent of total loans -- since even before the beginning of the global financial crisis. Reducing NPL levels, particularly among state-owned banks as they present the highest NPL ratios, is even more important to improve the post COVID-19 crisis recovery

[45] Such as payment arrears to OACA.
[46] The WBG Air Transport Note "Tunisia and the Potential for Open Skies with the European Union" found that based on the Morocco experience, an "Open Skies" regime could increase traffic in Tunisia with the European market by 15 to 20 percent (pre-COVID-19 context).

potential of the Tunisian economy.[47] When unresolved, high NPL levels create uncertainty and weigh on banks' ability to resume lending, thereby decreasing potential lending activity, investment and private sector growth. This is particularly true in Tunisia, as the banking sector remains the main source of finance for most firms. Recent studies relying on cross-country data have found a significant negative relation between NPLs and lending levels: a 1 percentage point increase in the ratio of NPL to total loans reduces net lending by around 0.8 percentage points.[48] These negative effects can conceptually be explained by three transmission channels: (i) *funding costs*. High NPLs raise uncertainty about the true capitalization of a bank, because provisioning might or might not be sufficient to cover eventual loan losses, which translates into higher risk premium on banks' funding and reduced access to financing by banks. These additional funding costs are passed on onto borrowers through higher lending rates, which limits credit supply[49] ; (ii) *efficiency gains.* Banks are not designed to devote a significant portion of their resources to debt collection activities. Reducing NPL levels therefore allows banks to reallocate staff and operations into lending activities, which increases the efficiency of the bank and improves their lending ability; and (iii) *financial soundness*. Lower NPLs improve the credibility and perception of banks' financial soundness, which is a foundation for the private sector's trust in financial institutions. This is a particularly critical aspect in Tunisia where the bank's primary source of funding remains customer deposits.

102. When other resolution options have failed (enforcement, restructuring and sale), loan write-offs become the only solution available to address NPLs, allowing the bank to allocate its productive resources to new lending. As a result, banks' ability to lend improves. Both international accounting and prudential standards (IFRS and European Supervisory Authorities) consider the timely write-off of uncollectable loans as best practice, and encourage banks to apply them, subject to certain conditions, in order to foster and strengthen banks' balance sheets. The determination of whether a loan would be written-off lies with the management of the bank and will be publicly disclosed to shareholders.

103. To encourage loan restructuring and accelerate NPL resolution in public banks, Law 36/2018 was enacted in June 2018, allowing public banks to accept partial write-offs (*remise de dettes or abandon*) of up to 20 percent of loan principal. While this was a positive initiative that could have had a significant impact in the resolution of vintage uncollectable loans in public banks, the eligibility criteria included in the law were very strict, and included, among others: (i) that the loan had been originated before 2011, and (ii) that the remaining amount of loan principal was repaid in full within the following six months from the write-off transaction. Due to these severe requirements, public banks could not take full advantage of the opportunity afforded by the Law and the number of restructuring transactions observed during the application period of the Law was scarce (only 4 transactions included a write-off in principal). The volume of write-offs accepted by public banks was also limited (TND 195 million) as well as the amounts recovered (TND 124 million).

104. Similarly, the deduction of losses incurred by all banks (public and private) as a result of transactions involving a full or a partial write-off is subject to very strict requirements, including the obligation to collect a final and irrevocable judgement, which is a cumbersome process that may imply a judicial review up to three instances.[50] To alleviate this situation, Law 37/2018 was enacted in June 2018, amending Article 48 of the Tax Code and allowing banks to apply

[47] Recoveries after financial crises are found to be particularly protracted because they tend to be "credit-less" due to impaired financial intermediation (Abiad et al., 2011).
[48] See Dovern and others (2010), Espinoza and Prasad (2010), Nkusu (2011), De Bock and Demyanets (2012), Klein (2013), Bending and others (2014), and IMF (2015).
[49] See Diawan and Rodrik, 1992.
[50] See Article 48 of the Tax Code. Other requirements imposed by the Tax Code include: (i) that the loan has been provisioned in full, (ii) that no payments have been observed in the 2 years preceding the write-off, and (iii) that the board of directors of the bank formally approves the write-off.

write-offs over fully provisioned loans without requiring that a final and irrevocable judgment be obtained at the time of the write-off. However, obtaining such judgement is still mandatory within the 5 years following the write-off transaction, which still proves greatly challenging for most banks. Moreover, Law 37/2018 does not provide any details as to the tax consequences in case the bank fails to collect a judgment within this period. This poses a significant risk for banks, as it is often interpreted that, in the absence of a final and irrevocable judgement, the write-off transaction (*radiation*) involved debt-forgiveness (*abandon*). These two aspects limited greatly the potential positive impact of Law 37/2018. Indeed, only TND 174 million, or 1.3 percent of the NPL stock were written-off in 2018, the year when Law 37/2018 entered into force.

105. As a result of the strict requirements imposed by the tax framework, banks prefer to carry uncollectable loans on their balance sheets for prolonged periods rather than facing the risk of potentially incurring into tax liability. This situation explains the high average loan age of the NPL portfolio across banks (54 percent of category 4 loans[51] in the three largest public banks are older than 5 years).

106. ***Policy reform:*** To improve NPL resolution and strengthen the credibility of banks' financial soundness, the Council of Ministers will approve and transmit to Parliament a draft Law that will draw from the experience of Laws 36/2018 and 37/2018 and will: (i) allow the write-off (*remise de dettes*) of a pre-defined type of loans in public banks, and (ii) clarify and relax the requirements applicable to the tax deductibility of losses incurred by all banks when engaging in accounting write-offs (*radiations*) of fully provisioned loans.

107. For Tunisian public banks, the legal write-off of loans (*remise de dettes* or *abandon*) is considered an offense under Article 96 of the Criminal Code, which punishes the directors and officials in public banks with up to 10 years of prison when completing these transactions. This provision prevents public banks from applying any write-offs, posing an obstacle for the resolution of NPLs. More specifically, this provision: (i) is considered poor banking practice, as indefinite debt collection prevents borrowers from staying in the formal sector, discouraging financial inclusion; (ii) creates an uneven playing field that discourages fair competition among banks. While private banks can take reductions in principal and interest in ordinary restructuring transactions, public banks cannot make the same sacrifices; (iii) partially explains the stark differences in NPL ratios existing between public and private banks (18.2 percent versus 10.1 percent as of September 2019); and (iv) prevents the successful restructuring of syndicated loans where partial write-offs are needed. As a result, distressed but viable borrowers are prevented from successfully restructuring their debt, which may lead to firm liquidations and value destruction.

108. As a result of this measure, public banks' perception of the risk involved in accepting write-offs (*remise de dettes*) will be significantly reduced, which will encourage them to engage into meaningful debt restructuring of distressed firms by COVID-19 crisis whose debt burden has become unsustainable. Simultaneously, as a result of this reform it will also be possible for all banks (public and private) to claim as tax deductible expenses the losses incurred in transactions involving: (i) the write-off of uncollectible debt, where banks can reasonably demonstrate that all recovery actions against the borrower have failed, (ii) debt forgiveness approved in the context of restructuring transactions, where a partial write-off of a portion of the outstanding amount of the loan is accepted by banks to allow the economic survival of the borrower, and (iii) the sale of loans by banks below book value, where banks transfer a loan to a third party for recovery or restructuring. Enabling all banks to engage in these transactions, and deduct the losses incurred in the process, will create a level playing field that will promote that all engage in restructuring negotiations with distressed borrowers. As an exception, transactions involving write-offs in favor of parties especially

[51] Category 4 loans or '*compromised assets*' are those loans that have been overdue by more than 360 days. See Article 7 of Circular 91-24 from the Central Bank of Tunisia.

related to directors of public banks will not be allowed. The fiscal impact of the action proposed is non-existent, as banks will not be able to deduct additional losses beyond the provisions already created for that loan. It should be highlighted that as requirement for the losses to be tax deductible, the portion of the loan being written-off must have been fully provisioned under BCT regulations, and that these provisions are already fully deductible expenses under the Tax Code.

109. ***Expected results:*** When enacted, the actions proposed by the government will improve the process of NPL resolution through different channels. First, the stock of vintage and uncollectible loans across banks, i.e. loans that have been classified as category 4 for several years, will be written off, which will decrease the amount of category 4 loans across all banks. Second, allowing banks to accept partial write-offs of principal and interests, as well as the tax deductibility of the losses incurred in doing so, will also incentivize banks to engage in restructuring transactions and allow distressed debtors, specifically those affected by the COVID-19 crisis, to stay operational and reduce the portion of debt considered unsustainable. Third, the actions proposed will also remove a critical obstacle for the development of a secondary market for NPLs, which relies on the possibility of banks to sell loans below book value (incurring a partial write-off upon completion of the sale) to potential purchasers beyond debt collection companies.

110. The result indicator would be the decrease in the volume of category 4 loans (older than 8 years in public banks). The baseline is TND 2,583 million, which is the volume of category 4 vintage loans in the three largest public banks as of December 2018. The target would be TND 2,066 million, which would be the volume of category 4 vintage loans existing in the three largest public banks as of December 2018 minus the amount written-off by December 2022. In other words, achieving the target would imply decreasing the amount of category 4 vintage loans existing in the three largest public banks by the end of 2018 by TND 517 million in 2022, which represents a 10.7 percent reduction in the total stock of category 4 loans in the three largest public banks.[52]

Pillar 3. Improving transparency and performance in the SOE sector

Prior action #7: *To improve fiscal transparency, the Borrower has published on the website of the Ministry of Finance the following reports annexed to the 2020 Budget Law: (a) a report on central government debt including contingent liabilities from SOEs; (b) a report on SOE finances, including their debt; as mandated by the Borrower's Organic Budget Law No. 2019-5, dated February 13, 2019 and published in the Official Gazette No.15 dated February 19, 2019.*

111. ***Rationale:*** Transparency in the public sector and citizen access to information has been one of the cornerstones of Tunisia transition towards democracy and a more open mode of governance. Since 2011, important progress has been made in improving access to information across the public sector, and on transparency in public finances. Tunisia joined the Open Government Initiative in 2014 and enacted an Access to Information Law in 2015. The Ministry of Finance has been championing open access to information with regular publication of draft and approved budget laws, and reports on budget execution, the creation of a citizen budget platform, etc. However, citizen access to information has historically been weaker on public debt and state support to SOEs including contingent liabilities from SOEs due in part to the budget framework in Tunisia (which only covers the central government) and unclear provisions on systematic publication.

112. On January 2019, the Tunisian Parliament adopted an Organic Budget Law which expands and clarifies legal provisions on budget transparency, including: (i) budget documents to be made publicly available upon approval by

[52] The calculation assumes the write-off of 20 percent of current category 4 loans older than 8 years in addition to the write-off of 20 percent of loans that are currently 6 and 7 years old but will move after two years, in full, to category 4 loans.

Parliament; (ii) the following reports to be annexed to the annual budget law: a report on public debt, a report on budget transfers to public enterprises and public entities, a report on the finances of public enterprises, an activity report on special funds (extra-budgetary funds), a report on the regional distribution of investment, a report of tax expenditure (starting in 2021) and a report on PPPs; and (iii) the budget submitted during year t for year t+1 to include state accounts up to year t-1.

113. ***Policy reform:*** The prior action supports the publication on the website of the Ministry of Finance of the following reports annexed to the 2020 Budget Law: (i) the report on public debt including guarantees to SOEs; and (ii) the report on the finances of public enterprises. The two reports are available in Arabic (resp. French) on the website of the Ministry of Finance[53].

114. The report on public debt covers central government debt, including on-lending central government direct lending to SOEs, for the period 2016-2019[54] by source (multilateral and bilateral institutions, domestic emissions by type, emissions in international financial markets) and purpose (general budget support, sectoral allocation of projects), and the drivers of debt accumulation and debt servicing cost. The report provides information on all state guarantees issued to SOEs (financial and non-financial SOEs as well as parastatals) from 2016 up to June 2019, as well as all guarantees that were triggered in 2017 and 2018. The report on SOE finances provides detailed information on the financial situation of 34 SOEs that account for over 88 percent of SOE revenues and 75 percent of total SOE employment. While the report is an important step forward, it did not include detailed analysis on a few large SOEs that present substantial fiscal risks and play a significant role in the Tunisian economy, such as Tunisair.

115. ***Expected results:*** The reform will improve public access to information on SOE finances and state financial support to SOEs. This is expected to contribute to the public debate on the reforms to put the SOE sector on a more efficient and sustainable path. More generally, the reform will contribute to strengthening a culture of citizen engagement and demand for accountability on state performance and the use of public resources. The expected result is regular publication of the reports following Parliament approval of the annual Budget Law. It is also critical that the reports are improved over time in terms of SOE coverage, comprehensiveness and quality of data on SOE financial and operational performance.

Prior action #8: *To improve the governance of SOEs, the Borrower has approved: (a) the application of merit-based appointments for boards of directors and a minimum number of independent directors in SOEs, pursuant to Decree No. 2020-314, dated May 19, 2020 and published in the Official Gazette No. 44 dated May 19, 2020; and (b) the timely publication of the SOEs' annual audited financial statements pursuant to Prime Minister's Circulaire No. 17 dated May 18, 2020.*

Trigger #9: *The boards of directors of at least five of the largest SOEs in priority sectors (electricity, water, sanitation and transport) will be renewed according to the new board nomination policy.*

Trigger #10: *The new SOE Law will be enacted.*

[53] The reports can be accessed on the following Arabic (resp. French) websites of the Ministry of Finance: *http://www.finances.gov.tn/ar/budgets_ministeres?field_type_document_target_id=All&field_secteur_et_domaines_target_id=74* resp. *http://www.finances.gov.tn/fr/loi_finance*

[54] The central government debt data in the report covers up to August 2019 for the 2020 Budget Law submitted to Parliament in October 2019.

116. ***Rationale:*** SOEs play a significant role in the Tunisian economy but have experienced a long period of declining financial and service-delivery performance, undermining the competitiveness of the country.[55] The COVID-19 crisis is exacerbating these difficulties and the associated fiscal costs and risks for Tunisia. Between 2013 and 2016, SOEs have incurred on average TND 400 million in net losses despite receiving close to TND 5 billion in operating subsidies on average (see reports supported by prior action #7). These subsidies, which reached TND 6.1 billion in 2018, enable the SOEs to implement the state's price subsidy policies (e.g., import and commercialization of food and fuel, transport) or to ensure access to and quality of public services (electricity, water, sanitation, transport etc.). SOEs also received significant investment subsidies/grants from the state totaling TND 1.3 billion between 2013 and 2016. Another source of fiscal risk lies in the SOE debt guaranteed by the state, which reached 15.7 percent of GDP in 2019 (of which 81 percent is external).

117. Strengthening governance provisions on transparency and accountability, board appointments, and state ownership arrangements is critical to improve the management and performance of the SOE portfolio. Law 89-9 governing SOEs is severely outdated and does not provide the foundation for good SOE governance in key areas such as transparency and disclosure; autonomy and professionalism of boards; ownership structure and functions (currently fragmented over 14 ministries and numerous bodies); and performance monitoring. Several SOEs submit their financial reports to government with significant delays, sometimes over one year. Audit reports obtained for some of these financial statements, pertaining to the largest SOEs, include qualified opinions, which casts further doubt on the SOEs' financial situation. Lastly, almost none of the SOEs publish their annual financial statements. These issues create an environment of limited accountability and explain, in part, the poor financial and operational performance of SOEs. In the absence of clearly specified selection criteria and procedures, boards are comprised largely of State representatives and representatives of local authorities, EPNAs, and SOEs, and lack the objectivity, skills, and knowledge to carry out their functions. A decentralized ownership structure allows individual line ministries to have full control of SOEs, providing scope for direct interference, potential conflicts of interest, and difficulties in monitoring the SOE sector as a whole.

118. ***Policy reform:*** In recent years, the Tunisian authorities have initiated a process to revamp the institutional framework for SOE governance, with a view to enhancing the transparency of SOE operations, professionalizing the ownership function, and strengthening the boards. A bill amending the SOE Law 89-9 was adopted by the Council of Ministers and transmitted to Parliament in February 2020. Given the large number of stakeholders and the range of issues involved, it is unlikely that the law can be passed in the short term. In addition, technical discussions and consultations are needed to align the legal framework for SOEs as much as possible with company law, provide much-needed simplification in the way SOEs are operated, increasing transparency and enhancing management and board accountability. Given the SOE vulnerabilities accentuated by the COVID-19 crisis and the urgency to initiate changes in their governance, the government has addressed the following critical and urgent foundations of good SOE governance:

- **Professionalized SOE boards**. To ensure that boards are equipped with technical skills and industry knowledge, the new law will introduce the principle of merit-based appointments for board membership and be detailed in implementing regulations, drawing on international good practice. To bolster the role of boards as independent checks on management - and building on the experience of state-owned banks where such measures were introduced in 2014 as part of the reforms of the banking sector – government

[55] SOEs in Tunisia operate in 13 different sectors, the largest being transportation, industry, energy, financial services and non-financial services. Of the 101 SOEs (financial and non-financial, and parastatals), the largest number is in transportation (23), industry (17), financial services (11), and infrastructure (10). SOEs accounted for close to 10 percent of GDP, 15.7 percent of fixed capital at the national level, 4 percent of total employment (2014),

decree No. 2020-334 pursuant to Article 2 of Law 89-9 has been approved by the Council of Ministers and published on the National Gazette. This government decree introduces the following two key measures: (i) a merit-based board nomination policy for SOE directors, through a procedure to be developed and adopted by the Head of Government, which will include interviews; and (ii) a requirement for a minimum of two independent directors on the boards of SOEs. The decree also mandates that each line ministry set up a commission for the respective sector to identify and propose candidates for board appointment, through a unified procedure. These measures are significant insofar as, up until now, SOE board members were all civil servants (except among three state-owned banks and some listed SOEs) and their appointment was not subject to any minimum requirements on industry expertise, technical skills and competencies. Moreover, and importantly, the decree includes a specific provision to setting a minimum representation of 40 percent for each gender on boards, to ensure balance and diversity. As a future measure to further strengthen the appointment process, it is envisaged that a single commission will be formed under the aegis of the new ownership entity (see below) to oversee appointments in boards for the SOE portfolio as a whole, thus ensuring consistency of practice and efficiency gains.

- **Transparency in SOE operations**. International good practice calls for SOE annual financial statements together with the corresponding statutory audit report (*rapport general du commissaires aux comptes*) to be made available to the public through digital means (e.g., electronic registry and website) in a timely fashion. Consistent with this emerging practice, the Head of Government has issued Circular No. 17 dated May 18 (*Circulaire du Chef du Gouvernement*) requiring SOEs to file their annual audited financial statements through the national company registry (*Registre National des Entreprises* or RNE) whose functionalities will be expanded to allow for enhanced digital publication and consultation of SOE financial statements by August 2020. This will complement the measures supported by prior action #7 to provide increased transparency and citizen access to information on the performance and financial situation of the SOE portfolio as a whole. A remaining issue is the lack of effective sanctions in case the SOE does not comply with its disclosure obligation. This will need to be addressed within the new SOE law currently under discussion at Parliament (trigger #10) and the accompanying decree establishing a new ownership entity (see paragraph below). Moreover, it is also important that the evaluation of SOE board members enacted in Decree No. 2020-334 include among the criteria the timely availability and public disclosure of SOEs' financial statements.

119. GoT is also firmly committed to strengthen its SOE ownership functions. The enhanced contribution of boards and increased transparency of SOE operations will support the government goal of professionalizing the SOE ownership function, which include the monitoring of the SOEs' performance, financial position and adherence to applicable corporate governance requirements. An equally critical measure, supported by the joint three-year program and expected to be met before the end of 2020 (see description in section 4.1 and Annex 7), will consist in the creation of a centralized ownership entity to fulfill key functions such as overseeing the nomination of SOE board members, monitoring SOE performance and preparing annual aggregate reports on the SOE portfolio.

120. ***Expected results:*** The proposed measures aim to improve transparency and governance in SOE operations, thereby shedding greater light on their performance, and enhance board effectiveness and management accountability. The following results indicator will be used to monitor and evaluate progress with a target of 60 percent of SOEs (non-financial) by turnover which have published their audited financial reports for year n during year n+1 on the national company registry (RNE) or on their website (in percent of total turnover, non-financial SOEs).

Prior action #9: *To reduce receivables and cashflow challenges among the SOEs in core public services so that they can ensure quality services particularly during COVID-19 recovery, the Borrower's Minister of Finance has issued Circulaire*

No. 541 dated May 14, 2020 to establish a mechanism for the payment of bills to STEG, Société Nationale d'Exploitation et de Distribution des Eaux (SONEDE) and Office National de l' Assainissement (ONAS) by relevant public entities with concrete compliance rules.

Trigger #11: *To improve the performance and financial sustainability of SOEs, the government will adopt comprehensive restructuring plans for at least two of the largest SOEs in priority sectors (electricity, water, sanitation and transport).*

Trigger #12: *The government will adopt and implement new policies and actions to reduce the fiscal cost of energy subsidies, through either (i) the reduction of LPG subsidies; or (ii) the indexation of end-user tariffs of natural gas or electricity to the purchase price of natural gas, the exchange rate, and the inflation rate through a formula, with tariff adjustments at least quarterly.*

121. ***Rationale:*** Ensuring efficient electricity, gas, water, and sanitation services is essential to secure the health and safety of the population during the COVID-19 crisis, and to underpin economic activity beyond it. However, the SOEs responsible for these services (STEG, SONEDE, and ONAS) experienced financial challenges even before the crisis. They heavily rely on operational subsidies (TND 1.3 billion in 2018 and TND 16 billion over 2009-18), incurred significant financial losses (TND 2.2 billion in 2018 after subsidies), and are highly indebted (TND 9.8 billion TND in 2018 or 9.3 percent of GDP).[56] STEG has suffered consistent losses since 2010, the most recent of which was a net loss of TND 2.1 billion (after subsidies) in 2018. It recorded a net gain of TND 92 million in 2019 thanks to currency appreciation and the corresponding reduction in financing costs. It also borrows short-term commercial loans at high interest rates to meet liquidity shortfalls. SONEDE has suffered negative net profits since 2010 except in 2015 when it made a profit of TND 3 million. It has received only minimal operating subsidies from the state (up to TND 1 million per annum), except for a one-time transfer of TND 53 million in 2015 for social charges incurred in previous years. ONAS has made small net profits of 1 to 15 percent of turnover, except in 2017 when it made a net loss (-2 percent) but is reliant on operating subsidies which accounted for 37-40 percent of its revenues between 2014 and 2018 (TND 542 million). The persistent financial deficits of these SOEs are mainly due to high operating costs, partly due to inefficiencies, and below cost-recovery tariffs.

122. On the cost side, the lack of investment in maintenance has affected service levels and caused a faster than normal depreciation of assets. For example, SONEDE's non-revenue water has increased from 22 percent in 2012 to 27 percent in 2017, ONAS is not fully meeting environmental wastewater treatment standards, and STEG's transmission and distribution losses have increased from 13.4 percent in 2009 to 18 percent in 2018.

123. On the revenue side, average tariffs for all three SOEs are below cost recovery and have not been adjusted in line with cost fluctuations over the last ten years. Overall, it is estimated that the government pays for 45 percent of the infrastructure bill, while 50 percent is paid for by user fees and 5 percent through external financing.[57] Potable water tariffs are estimated to cover 67 percent and irrigation tariffs 60 percent of operating expenditure. Treated wastewater for reuse is priced at 20 millimes/m^3 (less than 1 US cent), well below the cost of production. While electricity and gas tariffs have increased and subsidies to industrial customers were reduced, tariffs for households and smaller commercial customers are still 60-70 percent below cost. A large share of the revenue shortfall comes from public customers. By the end of 2019, public sector clients accounted for 51 percent of arrears to STEG, totaling TND 1,040 million (of which 40 percent were for administrative entities and 45 percent for SOEs). For SONEDE, public sector

[56] Financial data for 2018 is based on 2018 audited financial statements for STEG and ONAS and unaudited accounts for SONEDE. Note STEG accounts for 97 percent of the losses and 85 percent of the debt of the 3 SOEs.
[57] Estimates from World Bank Public Expenditure Review, 2019

customers accounted for 27 percent of its arrears, while for ONAS the figure was 19 percent (end 2018). Cost recovery would worsen as the revenues of all three SOEs are expected to deteriorate significantly during and beyond the pandemic due to reduced demand from suppressed economic activity and the temporary suspension of bill payments for electricity, gas, water, and sanitation services announced by the government in March and April 2020.

124. In the energy sector, the government adopted in May 2018 an Energy Subsidy Reform Policy Note[58] which outlines its plan to eliminate subsidies by 2022. Since then, the government has gradually increased tariffs for electricity and gas (mainly for industrial and large commercial customers) as well as gasoline and diesel. Although lower oil prices have improved cost recovery, household LPG remains the most heavily subsidized commodity. The LPG price has not changed since 2017, and even at an oil price of US$30/barrel, is still 50 percent below production cost. Although LPG is an important source of energy for cooking and heating for many poor and lower-middle-class households, the universal subsidy results in notable leakages to richer households and businesses. The household survey of 2015 noted household consumption of 35.5 million LPG bottles although, 40 million were sold on the market. This implies that 4.5 million bottles were consumed by non-households resulting in a leakage of TND 73 million of subsidies. Underpricing may encourage overconsumption, further adding to the subsidy bill.

125. ***Policy reform:*** In the short term, these SOEs will need to have enough liquidity to maintain uninterrupted critical services during the pandemic, while medium-term actions are needed during the recovery phase and beyond. The prior action aims to ensure timely payment of bills by public agencies receiving state funds. The mechanism is enacted by way of a Circular of the Minister of Finance. The Circular mandates that, under the annual Budget Law, specific funds will be allocated to public agencies for the payment of their water, sanitation, electricity, and gas bills with stringent earmarking rules according to the Organic Budget Law (the Circular also re-states that such funds cannot be used for other purposes). Given Tunisia’s budget framework, this mechanism will only cover Ministries, administrative agencies (*Etablissements Public Administratifs*), and certain SOEs (*Etablissements Public Non Administratifs*) but not all SOEs (commercial SOEs for instance). Nevertheless, the mechanism is expected to help reduce arrears significantly. For instance, in the case of STEG, public entities covered by the mechanism accounted for at least 40 percent of arrears from the public sector and at least 20 percent of total arrears public and private customers in 2019[59]. In the case of SONEDE arrears from public entities covered by the mechanism accounted for 27 percent of total arrears from all customers in 2018. To allow for the time to set up the mechanism (including (including for estimation of bills) and to align it with the budget cycle, the mechanism will be effective starting January 1, 2021.

126. In the medium term, the two SOEs will adopt and implement restructuring plans, reflected in the appropriate State-SOE performance contracts (*contrat de performance* or *contrat-programme*), to demonstrate a clear pathway to improve financial and operational performance. In addition to incorporating the governance measures under pillar 2, the plans would include:

- Adoption of a revised tariff setting methodology, structure, and implementation mechanism;
- Financial restructuring of SOEs with a clear path to financial sustainability that enables them to leverage some private financing;
- Updated organigrams that respond to enhanced commercial and operational efficiency and avoid overlap, and improved human resources management;
- Establishing operational performance targets in line with industry norms and service quality and environmental standards to be incrementally met, with compliance rules and improvement measurement;

[58] Note de cadrage de la politique de réforme des subventions énergétiques 2018-2022, Mai 2018.
[59] These are lower bounds because available statistics do not allow to disaggregate arrears between SOEs and EPNAs.

- Arrangement to reduce cross-arrears among SOEs and with the government; and
- Agreements between the government and SOEs on the flow of operating and investment subsidies for the period covered by restructuring plans, incorporating a degree of conditionality.

127. The government drafted an analytical note[60] on LPG subsidy reform, drawing on the experience of India which it recently visited. Trigger #12 focuses on the implementation of this note, which replaces the universal subsidy with a market-based pricing mechanism and a direct cash transfer to households. This replacement would reduce the leakage to non-households. To further improve targeting, the cash transfer can exclude households with a natural gas connection (a cheaper substitute for LPG), removing one-third of the households.[61] For a quick rollout, the cash transfer utilize an existing identification and payment system such as deducting the cash transfer from STEG's bills to eligible households. A large-scale communication campaign to inform the public about the rationale and mechanism for the subsidy reform is essential.

128. ***Expected results:*** Successful implementation of the proposed payment mechanism (prior action #9) will help protect the revenue of the SOEs and reduce their cashflow shortages, while imposing payment discipline on public agencies and enhancing the transparency of their budgets and expenditures.

129. The SOE restructuring trigger (trigger #11) is expected to enhance the productivity and efficiency of electricity, gas, water, and sanitation services and reduce SOE reliance on government resources in a highly constrained fiscal environment. More specifically, gains are expected to accrue in the following areas:

- Improved financial viability of SOEs: steady reduction in net losses through revenue-enhancing and cost-cutting measures, reduction in receivables, reduction in debt to own funds ratio, sustainable finance costs and debt repayment capacity, adequate liquidity to cover payables, better provisioning of bad debts, and increased capacity to self-finance;
- Improved operational performance of SOEs: quality of service, hours of continuous service, network loss reduction, wastewater emissions standards, environmental standards;
- More efficient and targeted subsidies to support access to essential services for the poor while larger consumers pay more cost-reflective tariffs; and
- Sustainable staffing ratios and ability of SOEs to meet their staff costs, adequate qualifications and experience of senior management, remuneration packages commensurate with skills and experience, equal hiring opportunities for men and women, and gender-appropriate personal facilities at all SOE sites.

130. The results indicator is the ability of SOEs to increasingly cover operating costs and to meet debt obligations from own resources (debt sustainability), measured as: (i) operating revenue-to operating cost ratio[62] (excluding depreciation and provisions on the cost side and subsidies on the revenue side); (ii) operating cash flow-to-debt service ratio[63] (excluding subsidies). The baseline for each SOE is detailed in Annex 1 and the targets are respectively 1.3 for (i) and 0.25 for (ii). A ratio above 1 is needed for indicator (ii) in order to ensure financial sustainability, but the target

[60] La réforme de la subvention du GPL en Tunisie, Janvier 2020 (unpublished note).
[61] The transfer should also be limited to average household usage and can differ by region since some urban areas (Tunis and North East) consume less while colder regions in the west tend to consume more for heating.
[62] Known as the operating cost coverage ratio (inverse of the operating ratio), it is a measure of ability to cover cash operating costs from operating revenue from sales
[63] Known as the debt service coverage ratio, it is a measure of ability to meet debt obligations (principal + interest) from operating cash flow

recognizes the low level of the baseline and that incremental improvements will be needed for SOEs to strengthen their balance sheets.

131. Successful implementation of the LPG subsidy reform will help free fiscal space for more welfare-enhancing expenditures. Pricing LPG at market cost will also encourage resource conservation. The reform supported by trigger #12 is projected to help the government save between TND 148 and 334 million (based on oil prices of US$30 or US$60/barrel, respectively). The results indicator is the reduction of LPG, electricity and gas subsidy from 1.7 percent of GDP in 2019 to 0.8 percent of GDP. The calculations are based on WB estimates using the price gap methodology.

132. ***Climate co-benefits:*** These prior actions and triggers are expected to contribute to climate mitigation through two channels: (i) operational efficiency gains, e.g. the restructuring of SONEDE will enable it to make urgent investments in non-revenue water (NRW) reduction, resulting in energy savings between 2 and 3.3 GWh per year and lower CO_2 emissions between 1,392 and 2,312 tons per year. Enabling it to invest in new desalination capacity will increase the country's resilience to droughts and climate variability. Similarly, enhanced operational performance, including reduction of technical losses, by STEG will contribute to "improvement in utility-scale energy efficiency through efficient energy use and loss reduction, or resource efficiency improvements under Category 3.3 of MDB list of eligible mitigation activities; and (ii) LPG subsidy is expected to contribute to climate change mitigation through the optimization of energy consumption and the incentivization of renewable energy sources through a more competitive cost structure. This measure is on the list of eligible mitigation activities set by the multilateral development banks (MDB), under Category 9.1, "Efficient pricing of fuels and electricity (efficient end-user tariff)."

Table 4: DPF Prior Actions and Analytical Underpinnings

Prior Actions	**Analytical Underpinnings**
Operation Pillar 1: Strengthening resilience and inclusion	
Prior action #1: To enhance the capacity of the social protection system to respond to the COVID-19 crisis and future shocks, and improve household resilience: (a) the Borrower has expanded cash transfers as part of the immediate COVID-19 response pursuant to Law-Decrees No. 2020-3 and 2020-4, dated April 14, 2020 published in the Official Gazette No. 32, dated April 14, 2020; (b) the Borrower has approved Decree (Décret Gouvernemental) No. 2020-317, dated May 19, 2020 and published in the Official Gazette No. 45, dated May 20, 2020 setting the eligibility criteria and delivery procedures of different services under the AMEN Social Program; (c) the Minister of Social Affairs has issued Minister Order (Arrêté) dated May 19, 2020 and published in the Official Gazette No. 45, dated May 20, 2020 adopting the use of a new targeting model; and (d) the Borrower's Council of Ministers has issued a decision on May 7, 2020 to integrate additional social services in the AMEN social registry.	Research Center for Social Studies (CRES) and African Development Bank (2017). Evaluation of performance of social assistance programs in Tunisia World Bank technical assistance on targeting tools: Technical report on PMT model (ongoing) World Bank Tunisia Public Expenditure Review (PER), 2019 UNICEF Policy note: Cost and financing of Social Protection Floor, 2019

Prior action #2: To establish the legal framework for citizen digital identification and interoperability for better and more efficient service delivery (of social programs in particular), the Borrower: (a) has enacted Law-Decree No. 2020-17 dated May 12, 2020 on Unique Citizen ID ("Identifiant Unique des Citoyens" or "IUC") published in the Official Gazette No.41 dated May 12, 2020; and (b) has adopted Decree No. 2020-312 dated May 15, 2020 and published in the Official Gazette No.43, dated May 15, 2020, setting the objectives of the IUC, its content and technical specifications to define authorized user agencies and the purposes for their use, and to define the protocol and process interoperability related to the IUC.	World Bank Identification for Development: Diagnostic of ID Systems in Tunisia, 2019
Prior action #3: To enable affordable and secure digital payment transactions, the Governor of the Central Bank of Tunisia has signed Circular No.2020-11 on May 15, 2020 and published on May 18, 2020, specifying the terms and conditions for offering mobile payments and the requirements for the interoperability of payment systems.	World Bank Technical Assistance on Digital Financial Services
Prior action #4: To improve access to credit of enterprises and microfinance institutions affected by the COVID-19 crisis, the Borrower's Minister of Finance and the Société Tunisienne de Garantie have signed an Agreement (Convention) dated 11 May 2020 as amended on May 19, 2020, that implements a new partial credit guarantee fund scheme and sets the operating principles ensuring financial sustainability and rapid deployment.	World Bank TA Program to Sotugar, 2017-2020
Operation Pillar 2: Enabling private sector recovery	
Prior Action #5: To improve trade and logistics performance at the Port of Radès, the Borrower has: (a) streamlined trade procedures for critical supply chains given the COVID-19 pandemic (including medicine, health equipment and food), pursuant to Joint Circulaire by Minister of Finance and Minister of Trade dated May 12, 2020; (b) digitized specific international trade-related procedures pursuant to DG Customs' Decisions dated May 14, 2020; and (c) provided the necessary space for container operations through the separation of container and roll-on/roll-off traffic and the future expansion of the port, pursuant to Amendment No. 2 to the Concession Agreement between OMMP and STAM dated May 14, 2020.	World Bank Tunisia Infrastructure Diagnostic, 2019 World Bank Tunisia Public Expenditure Review, 2019
Prior action #6: To support post-COVID-19 recovery by leveraging private financing for renewable electricity generation, the Minister of Energy, Mines and Energy Transition has issued Ministerial Order ("Arrêté") dated May 28, 2020 and published in the Official Gazette No. 48 dated May 28, 2020, and Ministerial Decision dated May 27, 2020, complementing Decree No.105-2020 applying the Transversal Law (Law No.47-2019), to set the conditions for private sector special purpose vehicles that generate renewable energy to sell power to its shareholders using *Société Tunisienne de l'Electricité et du Gaz* (STEG) transmission and distribution network.	World Bank ESMAP Energy Sector TA, 2018-2020 World Bank Infrastructure Diagnostic, 2019
Operation Pillar 3: Improving transparency and performance in the SOE sector	
Prior action #7: To improve fiscal transparency, the Borrower has published on the website of the Ministry of Finance the following reports annexed to the 2020 Budget Law: (a) a report on central government debt including contingent liabilities from SOEs; (b) a report on SOE finances, including their debt; as mandated by the Borrower's Organic Budget Law No. 2019-5, dated February 13, 2019 and published in the Official Gazette No.15 dated February 19, 2019.	World Bank Tunisia: State-Owned Enterprise Reform, Technical Note, June 2017 World Bank Tunisia: Performance

Prior action #8: To improve the governance of SOEs, the Borrower has approved: (a) the application of merit-based appointments for boards of directors and a minimum number of independent directors in SOEs, pursuant to Decree No. 2020-314, dated May 19, 2020 and published in the Official Gazette No. 44 dated May 19, 2020; and (b) the timely publication of the SOEs' annual audited financial statements pursuant to Prime Minister's Circulaire No. 17 dated May 18, 2020.	Management and Financial Reporting in SOEs, June 2019 Republic of Tunisia: "White Paper on SOE Reform", 2019 World Bank Tunisia Public Expenditure Review, 2019
Prior action #9: To reduce receivables and cashflow challenges among the SOEs in core public services so that they can ensure quality services particularly during COVID-19 recovery, the Borrower's Minister of Finance has issued Circulaire No. 541 dated May 14, 2020 to establish a mechanism for the payment of bills to STEG, Société Nationale d'Exploitation et de Distribution des Eaux (SONEDE) and Office National de l' Assainissement (ONAS) by relevant public entities with concrete compliance rules.	World Bank Tunisia Infrastructure Diagnostic, 2019 World Bank ESMAP Energy Sector TA, 2018-2020 World Bank Tunisia Public Expenditure Review, 2019

4.3. LINK TO CPF, OTHER BANK OPERATIONS AND THE WBG STRATEGY

133. **The proposed operation is aligned with the WBG strategic priorities.** The proposed operation is aligned with the WBG twin goals of ending extreme poverty and boosting shared prosperity in a sustainable manner. It contributes to the implementation of the WBG Middle East and North Africa (MENA) strategy by promoting reforms that foster entrepreneurship and encourage private investment and trade, in line with its pillars on renewing the social contract and regional cooperation. The proposed operation supports the government in achieving its social and economic vision of inclusive and sustainable development as outlined in the Five-Year Development Plan 2016-2020. It is directly linked to the objectives outlined in the WBG Tunisia Country Partnership Framework (CPF) for 2016-2020 under Pillar 1 (Restoring an Environment Conducive to Sustainable Economic Growth and Private Sector-Led Job creation) and Pillar 3 (Promoting Increased Social Inclusion). In particular, the proposed reforms are in line with CPF Objective 1.1, which aims to achieve sound macroeconomic and fiscal management of the economy; and with CPF Objectives 1.2 and 1.3, which seek to improve the enabling environment for private investment and trade, as well as increase access to finance for SMEs and innovative enterprises. The operation's support for economic and social inclusion is directly aligned with CPF Objectives 3.2 and 3.3. A political economy filter has been applied to the proposed operation with the aim of improving its effectiveness and impact by identifying and responding to relevant governance and political economy constraints and opportunities.

134. **The proposed operation is aligned with the WBG support to client countries dealing with the COVID-19 crisis and its aftermath**. The WBG supports flexible responses to the COVID-19 pandemic, utilizing all operational and policy instruments. The first phase of the WBG support was focused on supporting client countries in their urgent need to confront the health emergency. The second phase consists of supporting the response to the social and economic urgencies that have arisen. This operation will support Tunisia to mitigate the impact of the crisis, help build resilience of households and of the economy, and support the government's efforts in implementing structural reforms that would lead to a stronger and more inclusive recovery.

135. **The proposed operation builds on the findings and lessons learned from the CPF Performance and Learning Review (PLR).** The PLR highlights the need to, inter alia, promote innovative solutions for entrepreneurship and SME development and strengthen engagement on social protection and inclusion. The proposed DPF incorporates some of these findings by supporting more tangible reform actions that aim to simulate private investment, enhance social

inclusion, and address inefficiencies – especially with regards to SOEs – and the need for more renewables in the energy sector.

136. **The operation will also contribute to implementing the Maximizing Finance for Development approach in Tunisia. While the IFC already has a strong presence in Tunisia, the DPF-supported reforms are expected to crowd in additional IFC and private sector investors in key economic sectors.** IFC's investment portfolio in Tunisia targets key sectors including agribusiness, financial services, health care, infrastructure and ICT. In addition, IFC advisory services include support for the development of finance institutions for MSMEs and entrepreneurs (in collaboration with the IBRD), as well as support for PPP development, including capacity-building and advice on identification and execution of PPP transactions. The reforms supported under the DPF, in combination with the ongoing WBG technical assistance provided to the government, are expected to catalyze further IFC investment in Tunisia, with a particular focus on PPPs in renewable energy, ports and desalination plants.

4.4. CONSULTATIONS AND COLLABORATION WITH DEVELOPMENT PARTNERS

137. **The government has undertaken consultations with key stakeholders on the prior actions and reforms supported by the DPF.** In 2017, the government conducted consultations on the key reform areas as part of the preparation of the *Note d'Orientation Stratégique* and the Five-Year Plan. In 2018, the government undertook additional consultations to solicit feedback on the specific reforms and priority actions proposed for the DPF. Finally, the proposed operation is part of a broad coordinated international support package to Tunisia, which includes: (1) parallel policy-based operations jointly prepared with KfW, JICA, AFD and AfDB in close coordination with the Delegation of the European Union; and (2) large financial support from the IMF through a US$745 million Rapid Financing Instrument, which is likely to be followed by a new EFF program. The joint financing package of WBG/KfW/AFD/JICA/AfDB amounts to US$600-700 million in 2020.

138. **In addition, the World Bank regularly undertakes consultations with key civil society organizations on the reform program and its analytical underpinnings.** These consultations confirm that the content of the program generally enjoys broad support, as the reforms are deemed essential for Tunisia's economic transformation. The WB continues to have excellent collaboration with the EU, the AfDB, UN agencies, AFD and the Japan International Cooperation Agency (JICA), all of which have a strong presence in Tunisia.

5. OTHER DESIGN AND APPRAISAL ISSUES

5.1. POVERTY AND SOCIAL IMPACT

139. **The worsening of economic conditions due to the ongoing crisis is affecting the wellbeing of many households especially the poor who are more likely to be negatively affected by it.** Recent estimates from a simulation exercise that combines labor shock and price shock simultaneously (see methodology in Box 4) show an increase in poverty by 3.4 percentage points and a slight increase in inequality due to the pandemic outbreak. To analyze the subgroup of the population along the welfare distribution people that is most likely to be affected by economic slowdown, we plotted density and Growth Incidence Curves (GIC). Figure 9a shows the pre-crisis and post-crisis consumption distribution, along with poverty line (red line). One can see that the poor will become poorer due to the economic shock induced by COVID-19 outbreak. The GIC curve presents this information in a different way and plots the growth rate of consumption per capita across two time periods, pre-crisis and post-crisis, for each percentile of the

distribution. Not surprisingly, Figure 9b shows that for almost all subgroups of the population of Tunisia along the welfare distribution, there is expected to be a decline in consumption per capita (see that GIC is below 0). Households with per capita consumption in the poorest 20 percent of the distribution are simulated to be hit most, experiencing large declines. Thus, the poorest are likely to be hit the hardest due to the ongoing COVID-19 outbreak.

Box 4: Methodological approach used for simulating the impact of labor market and price shocks on household welfare

The welfare simulations are based on a hybrid approach that combines the results of macroeconomic projections of sectoral slowdown of the Tunisian economy with micro-simulation techniques.

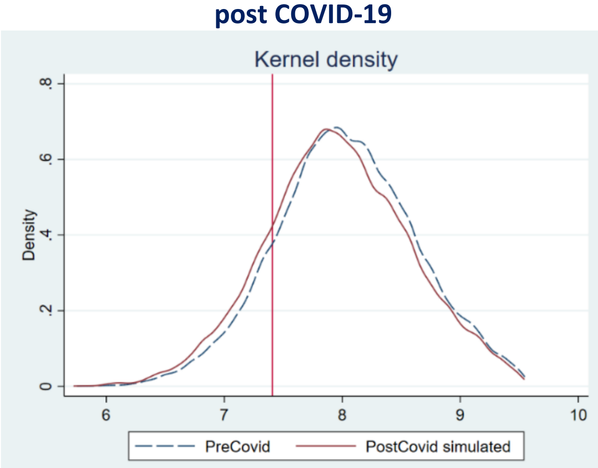
Combining information on GDP growth projections by sector and employment elasticity of growth of each sector (to capture how elastic employment is to changes in sectoral GDP), we estimate the loss of employment in each sector. Using household survey data, we then identify individuals that are likely to lose their jobs based on regression analysis and simulate the impact on consumption[64] under various assumptions. With this, we can identify a new distribution of post-pandemic consumption and assess impacts on poverty and inequality.

To simulate price shocks as a result of COVID-19 crisis, we use the published consumer price index (by National Institute of Statistics of Tunisia) by product categories for March. We then apply the new prices on household's consumption and simulate the decline in real disposable income/ consumption. We also assume that this trend will continue during the two months of containment (March and April 2020), followed by a normalization of prices and return to the trend observed during the year 2019. Note that we account for heterogeneity of consumption patterns across households, in particular between poor and non-poor households by using information on consumption of products by households collected in the household survey.

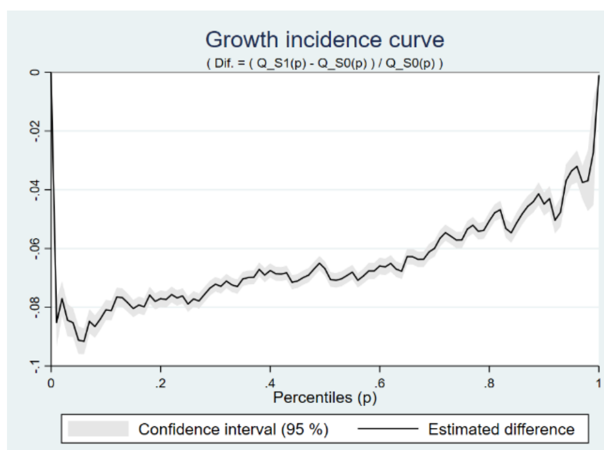
Source: Tunisia Poverty Diagnostic (forthcoming)

Figure 9: Distribution of per capita consumption and growth incidence curves for Tunisia

a. Distribution of per capita consumption pre and post COVID-19



b. Growth Incidence Curves



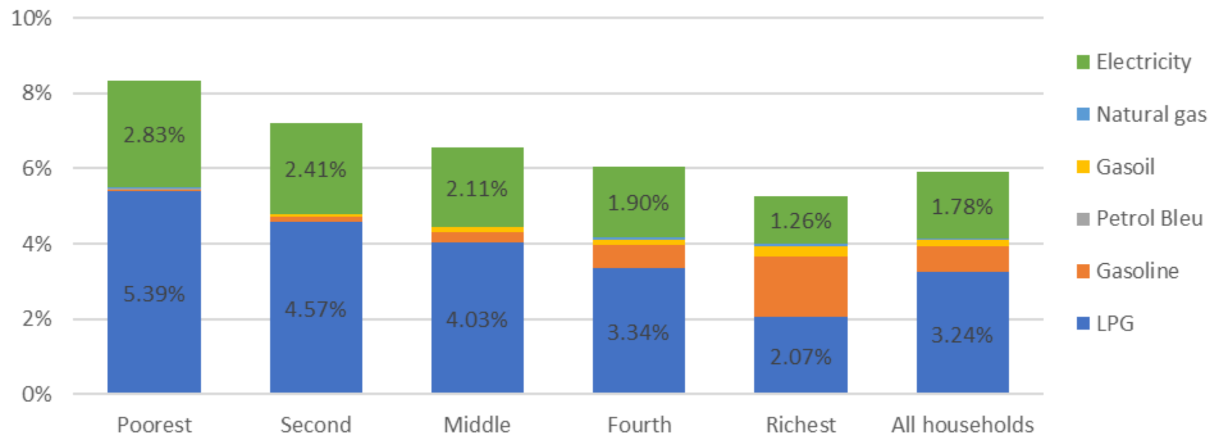
[64] As income data is not available, we use consumption data to simulate the impact of COVID-19.

140. **Overall, the proposed operation is expected to have a positive impact on poverty and vulnerability thanks to the strong emphasis on protecting the poorest and improving the identification and targeting mechanisms outlined in Pillar 1.** These prior actions will contribute to creating a more efficient social protection system than can effectively identify and target the population groups most affected by the crisis. Notably, those involving the implementation of the citizen digital identification and the introduction of a new targeting model can sensibly reduce at the same time exclusion errors in the programs by identifying households that were initially excluded as well as inclusion errors and make resources available for those who deserve it the most. Additionally, compensatory transfer measures initiated by the government and supported by this DPF will have a positive impact on poverty. Specifically, providing temporary unemployment benefits (TND 200) for workers who will be affected by partial unemployment on a one-off basis by mid-May will lead to a reduction in poverty by two percentage points (national poverty line) or by 2.2 percentage points using the US$5.5 PPP poverty line. In fact, this compensatory measure is expected to impact the bottom 40 percent distribution the most (See Annex 5 for a detailed analysis of all compensatory measures).

141. **Pillar 3 includes triggers that would have significant distributional impact. A detailed PSIA will be prepared during the preparation of the second operation of this series to measure these impacts and the effectiveness of mitigation measures.** One of the triggers would result in resizing of personnel in some SOEs having some poverty and equity implications. It is still premature to evaluate the effect but clearly the downsizing of staff in the absence of strong compensatory mechanisms has a social impact. Generally, SOEs restructuring plans include compensation measures (including specific pension schemas) to mitigate the impact of personnel resizing measures.

142. **The trigger on the reduction of energy subsidies (LPG, electricity, or gas) and their replacement with a cash transfer mechanism for eligible households would have important poverty and equity implications.** As mentioned previously, a detailed analysis of this will be included in the PISA based on the actual price adjustments. Nevertheless, previous work highlights that as a share of consumption, subsidies to LPG were the largest, followed by electricity for all except the richest households, who derived a 1.6 percent benefit from fuel subsidies (See Figure 2 from World Bank Tunisia Public Expenditure Review, 2019). This study estimates an increase in poverty headcount by 0.7 percentage points if the LPG subsidy is removed without any compensation. Similarly, the removal of electricity subsidy without any compensation would entail an increase in poverty headcount by 0.4 percentage points. The effectiveness of compensatory measures to mitigate these impacts depends on the specific social program used and the precision of its targeting. Simulations highlight that cash transfer program with improved targeting could compensate almost all poor households at minimal cost compensation given a removal of LPG subsidy. Even compensating all AMG beneficiaries would make the median poor individual better off. On the contrary, compensation through PNAFN assistance program would require about half of the reform savings but would leave most poor households worse off (see Annex 5).

Figure 10: Energy subsidy as a share of household consumption



Source: World Bank Tunisia Public Expenditure Review, 2019

143. **Citizen engagement.** Given the nature of this operation, namely, the client needs to rapidly deliver to each of the various actions, it would be difficult to realistically formally commit and deliver to the use of citizen engagement interventions. There are, however, a number of entry points around whereby dialogue with relevant citizen groups could potentially enhance the delivery of different components. The client will be encouraged to initiate dialogue with relevant citizen groups in order to solicit inputs on digital identification and authentication with the aim of better ensuring an effective and efficient service delivery, particularly on social protection programs. Furthermore, the client will be encouraged to utilize various ICT platforms to reach out to citizens for suggestions on how best to structure the web portal that it is user friendly and to monitor whether service delivery has indeed improved. Finally, the client will also be encouraged to engage public sector employees, with intention of initiating a dialogue aimed on how to enhance the strengthening of a culture of citizen engagement.

5.2. ENVIRONMENTAL, FORESTS, AND OTHER NATURAL RESOURCE ASPECTS

144. **Overall, the environmental and social risk of the operation is rated as Moderate (see Annex 6)**. The World Bank has assessed whether any specific policies supported by the proposed operation are likely to cause significant effects on the country's environment and natural resources. Based on that assessment, a conclusion was reached that the policies supported by the proposed operation are not, in general, likely to lead to negative impacts, but the implementation of the majority of proposed policies would lead to positive impacts.

145. **Overall, the proposed operation is expected to lead to positive impacts on Tunisia's environment and natural resource base. The prior actions under pillar 1** aimed at promoting greater economic and social inclusion. The achievement of a rapid targeted expansion of cash transfers to poor households and the development of G2P digital payments would entail positive environmental effects by contributing to reduce their demand for biomass. Promoting financial inclusion by allowing local banks to refinance their loans to MFIs with the BCT has a risk of negative impact if financial intermediaries do not adhere to sound environmental and social management practices and screen the activities they finance to ensure that they are prepared and implemented in accordance with sound environmental and social management practices and national law. The environmental and social safeguards management framework developed under the World Bank-financed Tunisia Micro, Small and Medium Enterprise Development Project and the

environmental and social management system developed under Tunisia Innovative Startups and SMEs Project could be used as reference in this regard.

146. **The prior actions under pillar 2** aimed at ensuring greater efficiency and investments in productivity and resilience-enhancing sectors. The construction of new renewable energy power plants generation may entail positive environmental effects from the reduction in emission of air pollutants and the associated decrease in health risks and the decrease in GHG emissions. Improving logistics performance and resilience in port of Rades, may entail environmental risks and impacts resulting in the increase of the volume of transport (road and maritime), may increase energy consumption. Improving access to credit of enterprises affected by COVID-19 crisis has a risk of negative impact if these enterprises do not adhere to sound environmental and social management practices. The current national environmental and regulatory framework and institutional capacity is believed to be sufficient to ensure that necessary mitigation measures are in place.

147. **The prior actions under pillar 3** aimed at improving transparency and performance of SOEs. The adoption by the government of a mechanism to ensure electricity and gas bill payment discipline among applicable public entities with concrete compliance rules may also entail positive environmental effects from the reduction in electricity and gas consumption by these public entities and consequently in emission of air pollutants from energy plants and the decrease in GHG emissions.

148. **Over the last years, Tunisia has confirmed a consistent, high-level and long-term commitment to environment protection, supporting a green economy and tackling climate change.** Strategic direction for these issues, which are clearly addressed in the 2014 Constitution, is provided by the Five-Year Development Plan (2016-2020), which stresses the importance of a new development model based on efficiency, equity, and sustainability. By laying the foundation for increased interdependence among agriculture, forestry and natural resources, the government seeks to engage all key actors (public, private, civil society organizations) in strong partnerships while increasing rural household incomes and strengthening the resilience and sustainability of natural resources. Implementation of the accompanying action plan will help to ensure a rational use of natural resources, better environmental protection, and greater control of energy consumption. Furthermore, the National Strategy for a Green Economy in Tunisia focuses on synergies and trade-offs between the environmental and economic pillars of sustainable development, in which economic outputs are directly increased by improved environmental conditions, leading to a virtuous circle of further economic growth.

149. **Climate change severely affects Tunisia as the country is highly vulnerable to five natural disasters: urban flooding, river flooding, coastal flooding, extreme heat, and wildfires.** According to Tunisia's country climate change brief, the arid North African nation is also prone to drought (+10-30 percent frequency and intensity by 2050, -5-10 percent of agricultural GDP, -30 percent of arable land, reduced animal husbandry), higher temperatures (+2.1C by 2050; 180,000 ha of forests from wildfires by 2030), and sea level rise (+50 cm by 2050, salination of half the nation's aquifers, damage to coastal cities where 65 percent of population lives). These threats to economic development and poverty alleviation, which are already probable, will grow in frequency and severity as temperatures warm, precipitation shifts, and sea levels rise. Tunisia's agricultural sector, which accounts for 10 percent of the economy (2015), will experience volatile disruption and could endanger food security. Natural capital, including forests that cover 6.7 percent of the territory (2015), will also be at risk. Low-income population, like the 15.2 percent of Tunisians who live below the national poverty line (2015), lack the capacity to adapt to climate-induced shocks. Finally, Tunisia like the rest of MENA suffers from acute water insecurity. As highlighted in *Beyond Scarcity* report, water shortages will reduce MENA GDP growth by 6 to 14 percent by 2050. Climate change, in short, will exacerbate all of these vulnerabilities. Unaddressed, it will amplify fragility.

150. **Tunisia's Intended Nationally Determined Contributions (INDC, 2015) and Nationally Determined Contributions (NDC, 2016) recognize the challenge of climate risk and request international assistance to confront it:** US$18.4 billion in mitigation investments to reduce carbon intensity by 41 percent from 2010 levels by 2030 and US$1.7 billion in adaptation investments to protect ecosystems (US$782 million), tourism, coastlines (US$556 million), agriculture, water resources (US$533 million), and public health. Top priorities include restoring degraded pasturelands, creating multi-species forest nurseries, preserving cork oak woods, controlling floods in drainage basins, and building resilience into coastal economic activity. While the Tunisia CPF (2016-2020) does not contain a green pillar, it pledges to combat climate change with an integrated approach, particularly in lagging regions, by supporting the country's adaptation and mitigation agenda.

151. **Tunisia has strong and well-defined institutional, legal and regulatory frameworks concerning the management of social and environmental impacts of investments.** The Ministry of Environment is the key player in the definition and implementation of environmental policies and strategies. It proposes policies related to the environment and ensures the coordination and monitoring of actions by state and local authorities for protection of nature and the environment, and the mitigation of pollution and nuisances. Ministry of Environment publishes an annual report on the state of the environment and implements action plans to address various environmental problems related to water, solid waste, biodiversity, natural resources and urban planning.

5.3. PFM, DISBURSEMENT AND AUDITING ASPECTS

152. **Overall the fiduciary risk of the operation is rated as moderate.** The latest Public Expenditure and Financial Accountability assessment (PEFA) of 2016 complemented by subsequent assessment such as IMF Article IV, 2018 joint IMF/WB PIMA, and 2018 PFM Master Plan concluded that the legal and administrative framework for public financial management offers a level of assurance regarding reliability of information, predictability and control in budget execution and a strong control environment; however, the report also identified weaknesses related to budget comprehensiveness, transparency and accountability. The PEFA diagnostic also highlighted several shortcomings, notably on the level of aggregation of the information reported, the policy-based budgeting, and the accounting, recording and reporting. Regarding the level of budget comprehensiveness and transparency, the PEFA diagnostic reported that the government has made great efforts for open budget transparency (i.e: Mizaniatouna initiative), which incorporates programmatic, performance-based budgeting in the online open budget platform. The Ministry of Finance publishes through the website dedicated to the budget execution by objective (GBO) budget execution and activities by objective and by budget owner. Fiscal reporting has also made notable progress[65], even if the quality of fiscal data needs to be improved through accounting reform. The new organic budget law 2019-15 adopted in 2019 introduced several improvements which provide higher predictability and control in budget planning and execution and combined with the strong existing public sector internal control framework will increase accountability. The new organic law of the Court of Audit 41-2019 guarantees the operational autonomy the court from the legislative and executive powers in performance of its functions and management of office. This will strengthen the role of the Court of Audit that has the mandate to audit all revenues and expenses in the country's budget including all central government activities, local governments, SOEs, independent constitutional institutions and regulatory authorities. The government has embarked on a series of public financial management reforms that aim to increase local governance and improve transparency and accountability, including accounting reform with adoption of IPSAS which are mandatory for local

[65] Every budget, regular and supplemental is published in the official journal upon approval, and it is also made available on the Ministry of Finance web portal (link: http://www.finances.gov.tn). Budgets since 2003 are available online. In line with the reforms supported by the First Governance Opportunity Jobs DPL, the government is committed to further expand the publication of information related to the budget and public finances, including a more accessible "Citizen's budget".

governments starting from 2022. Ongoing technical assistance has been mobilized by donors (particularly the EU, the World Bank, the IMF and AfDB) to enhance the capacity of the control bodies and the Court of Audit.

153. **Addressing public sector governance and public financial management is identified as a key priority in the Tunisian government's *Plan stratégique de développement économique* 2016 -2020**. To advance this priority an Organic Budget Law was enacted in January 2019, following a multi-year piloting phase, and significantly improves the PFM framework.

154. **The first-time safeguards assessment of the Central Bank of Tunisia undertaken in 2012 by the IMF, found an adequate control environment for the day-to-day operations, but oversight, autonomy, and transparency need strengthening.** The implementation of the recommendations from the safeguard assessment is among BCT's main priorities. The BCT publishes its audited financial statements in a timely manner, but disclosure information will be enhanced. Development of the internal audit function will need capacity building and oversight by the newly established Audit Committee. The BCT confirmed its commitment to implementing the recommendations of the safeguards assessment, some of which, such as the improvement of its collateral framework, were already part of its reform agenda. The statutory audit reports on BCT Financial Statements covering calendar year 2017, 2018 and 2019 have an unmodified audit opinion. The Management Letter prepared by the auditor is not made public, but no major deficiencies are highlighted in the external auditor report.

155. **The proposed loan will follow the WB disbursement procedures and GoT practices for development policy financing.** After the loan has been approved by the World Bank Group's Board of Executive Directors and becomes effective, the proceeds of the loan will be disbursed in one tranche and in compliance with the the Loan Agreement and following GoT practices for receiving funds related to budget support (dedicated special account). At GoT's request, the proceeds of the loan will be first deposited by the IBRD into a dedicated special account, which forms part of the country's official foreign exchange reserves, nominated by the GoT and held at the BCT. Then, an equivalent amount in local currency will be credited to the single treasury account (*compte courant du trésor*) of the government to finance budgeted expenditures. The conversion will be based on the prevailing exchange rate on the date that the funds are credited to the Treasury Account. Within 30 days of disbursements the GoT will report, by written confirmation, to the Bank on the amounts deposited in the foreign currency account and credited to the budget management system**.** The confirmation will include the local currency amount credited to the account that is used to finance budgeted expenditures, the exchange rate applied and the date of the transfer. If the proceeds of the loan are used for ineligible purposes as defined in the Loan Agreement, the IBRD will require the Borrower to promptly upon notice refund an amount equal to the amount of said payment to the IBRD. Amounts refunded to the Bank upon such request will be cancelled. The loan proceeds will be administered by the Ministry of Finance.

156. **Although an audit of the use of the funds may not be required, the Bank reserves the right to ask for an audit of the dedicated deposit account where all withdrawals from the Loan Account will be deposited, if the fiduciary risk of the operation, currently rated as moderate, rises because of changes in the control environment surrounding this operation.** This audit, if asked for, will cover the accuracy of the debits and credits made under the account, including accuracy of exchange rate conversions; confirming that the account was used only for the purposes of the operation and that no other amounts have been deposited into the account. The timeline for submission of the audit report to the Bank is no later than six months from the date a request for such audit is issued.

5.4. MONITORING, EVALUATION AND ACCOUNTABILITY

157. **Implementation and coordination responsibilities.** Responsibility for implementing the program rests with the MDICI, which coordinates all relevant activities with other ministries. The MDICI will also take the lead in monitoring implementation progress. Given the important policy implications of the program, the Prime Minister's office, the Ministry of Finance and the BCT are also involved in the program design, implementation and monitoring.

158. **Supervision by the Bank.** Regular supervision will allow the Bank to continue providing policy advice and technical assistance to the institutions involved in implementing the reform program. The Bank will maintain continuous dialogue with the relevant ministries and will conduct regular reviews in close collaboration with other partners, including supervision missions in the case of specific reforms. The continuous policy dialogue and the Bank's engagement with the medium-term reform agenda will underpin the supervision process.

159. **The availability of data is generally sufficient to monitor progress, but with some areas of difficulty. The government is strengthening its mechanisms to monitor and report the results of the program during the entire implementation period under the coordination of the MDICI.** Where applicable, the indicators selected in this operation are already collected and monitored by the associated institution. The operation thus builds on the existing monitoring and evaluation systems of the government. The government will have in place a mechanism to monitor and report results throughout the implementation of the programmatic DPF series. In addition the reforms supported by this operation and their sustained implementation will contribute to improving availability and public access to the data needed for monitoring the program (e.g., results indicators #11 and #12 under prior actions #7 and #8 will help compute and monitor results indicators #13 and #14). The results under the programmatic DPF series will be monitored and reported at closing of each operation Moreover, the Bank and other development partners will continue to provide support to the government to improve data quality and management, strengthen monitoring and evaluation, and enhance the government's capacity to use development outcomes to inform policymaking. As part of the monitoring of the joint WBG/KfW/AFD/JICA/AfDB policy-based operation, the government is putting in place to monitor and report the results of the program at least until end-2023 given that some donor-funded operations will close at the end of 2023 (KfW and AFD have three-year programs).

160. **Grievance Redress**. Communities and individuals who believe that they are adversely affected by specific country policies supported as prior actions or tranche release conditions under a World Bank Development Policy Operation may submit complaints to the responsible country authorities, appropriate local/national grievance redress mechanisms, or the WB's Grievance Redress Service (GRS). The GRS ensures that complaints received are promptly reviewed in order to address pertinent concerns. Affected communities and individuals may submit their complaint to the WB's independent Inspection Panel which determines whether harm occurred, or could occur, as a result of WB non-compliance with its policies and procedures. Complaints may be submitted at any time after concerns have been brought directly to the World Bank's attention, and Bank Management has been given an opportunity to respond. For information on how to submit complaints to the World Bank's corporate Grievance Redress Service (GRS), please visit http://www.worldbank.org/GRS. For information on how to submit complaints to the World Bank Inspection Panel, please visit www.inspectionpanel.org.

6. SUMMARY OF RISKS AND MITIGATION

161. **The overall residual risk rating of this operation is estimated at High**. The major residual risks to the operation's ability to achieve its development objective include (a) political and governance risks; (b) macroeconomic

risks; (c) institutional capacity for implementation and sustainability; (d) stakeholder risks; and security risks. These risks are either rated as **High** or **Substantial** and are described below. Residual risks for other risk categories (see Table 5) are rated as **Moderate**.

162. **Political and Governance risk - High.** Tunisia has undergone an important democratic transition, marked by free and pluralist elections. However, nine years after the revolution, Tunisia is still struggling to realize the aspirations of its citizens. Indeed, the transition period has been characterized by the deterioration of the economic and social situation and the impact of the reforms has been slow to materialize on the daily lives of Tunisian citizens. The results of the presidential and legislative elections of September-October 2019 reflected citizens' disappointment with the economic and social situation and desire for renewal. Progress on the economic and job fronts, containing inflation, improving transparency and fighting corruption will be critical to lower social tensions and meet the expectations of the population and rebuild trust. However, the government, endorsed by a fragmented Parliament in February 2020 after four months of extensive negotiations, is based on a wide coalition without a predominant party, and the global political consensus remains fragile. This, in turn, may affect the implementation of structural reforms targeted by the operation.

163. **Macroeconomic risk – High**. The main macroeconomic risks facing Tunisia are related to a potential worsening of the domestic and global economic situation, as well as to social and security risks. A lengthening and deepening of the COVID-19 crisis will further strain Tunisia's macroeconomic and fiscal situation (deeper recession, job losses, higher fiscal deficit and financing needs, SOEs in financial difficulty etc.). While the government is responding to the crisis, its deepening could heighten social frustration and feed social instability. In this context strong policy anchor and financial support is critical. To mitigate these risks, the GoT has: (i) reached an agreement with the IMF on a US$745 million RFI to support Tunisia's proactive policy response to the COVID-19 pandemic, and (ii) decided to reprioritize resources from the existing World Bank portfolio to COVID-19 response measures, including economic stimulus measures. In the meantime, the World Bank and bilateral and multilateral institutions (the EU, AfDB, KfW, JICA and AFD) are providing technical and financial support to accelerate the implementation of structural reforms through each of their specific portfolio. Despite the mitigation measures, and because of the uncertain duration of the crisis, the macroeconomic residual risks are rated High.

164. **Institutional Capacity for Implementation and Sustainability risk – Substantial.** Despite the commitment of the new government to push the reform agenda, some political groups in Parliament may oppose key reforms. The government has under current emergency situation the ability to approve laws related to the response to the COVID-19 crisis (per the provisions Article 70 of the new Constitution). Capacity building provided to parliamentary commissions, and positive and coordinated political messaging around reforms from a range of international actors, as well as more action-oriented measures under the control of the government, would help mitigate these risks. Coordination across agencies and ministries can be challenging for certain actions, as was the case in the previous DPFs. Opposition from part of the administration can lead to incomplete reform implementation, especially with regards to the expected improvement of transparency and performance of SOEs supported by the program. The WB technical assistance and financing support throughout the adoption and implementation processes, along with consistent consultations with civil society and unions, will help to mitigate those risks.

165. **Stakeholders risk – Substantial.** The government has been taking a gradual and consensus-building approach to reforms to maintain social peace. Over the past years, the government has also taken a more proactive stance toward communicating the need for reforms and is integrating public consultation and awareness dimensions its reform programs. However, opposition to reforms to improve the situation, including the opening of competitive markets to strategic economic partners may arise from entrenched economic and social interest groups, including

business groups and workers unions, especially if they are perceived as a threat for jobs or vetted interests. In addition, opposition to potential tariffs reforms in vital services delivery (water, electricity) may come from the most vulnerable people. Government's measures to support ad-hoc tariffs, as well as open communication will help mitigate these risks.

166. Importantly, such communication efforts will need to highlight the costs to the broader community of not reforming in terms of foregone growth and financial sustainability, loss of competitiveness, currency depreciation and higher inflation. The Bank is also investing considerable effort in awareness raising, building shared diagnostic tools among stakeholders, and strengthening the government's communication capacity and efforts.

167. **Other risk (security) – High.** A significant deterioration of the domestic and regional security situation, particularly in neighboring countries, could negatively affect Tunisia's economic outlook, change the government's reform priorities or derail its reform efforts, thus affect the achievement of the PDO. To mitigate this risk, and prior to the COVID-19 pandemic, the government had increased security and defense spending and intensified the fight against terrorism. Separately, if the economic and social situation further deteriorates due to the pandemic, social tensions could increase and equally pose an increased risk on the overall delicate social-economic conditions. This would in turn impact the overall country-wide security conditions and hinder the expected resilience, social inclusion and economic recovery supported by the DPF. However, at this stage, the overall pandemic impact and how it will affect the said (social and economic) conditions and security, remains too early to establish.

Table 5: Summary Risk Ratings

Risk Categories	Rating
1. Political and Governance	● High
2. Macroeconomic	● High
3. Sector Strategies and Policies	● Moderate
4. Technical Design of Project or Program	● Moderate
5. Institutional Capacity for Implementation and Sustainability	● Substantial
6. Fiduciary	● Moderate
7. Environment and Social	● Moderate
8. Stakeholders	● Substantial
9. Other	● High
Overall	● High

ANNEX 1: POLICY AND RESULTS MATRIX

Prior actions and Triggers		Results		
Prior Actions under DPF 1	**Triggers for DPF 2**	**Indicator Name**	**Baseline (2019)**	**Target (2022)**
Pillar 1: Strengthening resilience and inclusion				
Prior action #1: To enhance the capacity of the social protection system to respond to the COVID-19 crisis and future shocks, and improve household resilience: (a) the Borrower has expanded cash transfers as part of the immediate COVID-19 response pursuant to Law-Decrees No. 2020-3 and 2020-4, dated April 14, 2020 published in the Official Gazette No. 32, dated April 14, 2020; (b) the Borrower has approved Decree (Décret Gouvernemental) No. 2020-317, dated May 19, 2020 and published in the Official Gazette No. 45, dated May 20, 2020 setting the eligibility criteria and delivery procedures of different services under the AMEN Social Program; (c) the Minister of Social Affairs has issued Minister Order (Arrêté) dated May 19, 2020 and published in the Official Gazette No. 45, dated May 20, 2020 adopting the use of a new targeting model; and (d) the Borrower's Council of Ministers has issued a decision on May 7, 2020 to integrate additional social services in the AMEN social registry.	Trigger #1: To improve the adequacy and efficiency of cash transfers and health insurance for poor and vulnerable households: (i) the government will update the amount of the cash transfers (permanent or temporary) on the basis of an evaluation by the Ministry of Social Affairs; and (ii) new digital health insurance cards for social assistance beneficiaries will be issued.	Results Indicator #1: Coverage of cash transfers (permanent or temporary) as a percent of total population. Note: poverty headcount in 2015 is 15%. Results Indicator #2: Share of social assistance beneficiaries/applicants with verified (reassessed) welfare status. Note: the indicator measures the percentage of those who are in the AMEN social registry whose welfare status is verified annually (at least) based on data collection or civil registry or other relevant administrative data	9% 0% (No assessment / verification, manual stamping on paper-based beneficiary card)	15% 80%

Prior actions and Triggers		Results		
		using the IUC and through an interoperable platform.		
Prior action #2: To establish the legal framework for citizen digital identification and interoperability for better and more efficient service delivery (of social programs in particular), the Borrower: (a) has enacted Law-Decree No. 2020-17 dated May 12, 2020 on Unique Citizen ID (“Identifiant Unique des Citoyens” or “IUC”) published in the Official Gazette No.41 dated May 12, 2020; and (b) has adopted Decree No. 2020-312 dated May 15, 2020 and published in the Official Gazette No.43, dated May 15, 2020, setting the objectives of the IUC, its content and technical specifications to define authorized user agencies and the purposes for their use, and to define the protocol and process interoperability related to the IUC.	Trigger #2: To improve citizen digital identification and interoperability, the IUC registry will be effectively deployed and implemented in priority programs including social protection, taxation, education and justice.			
Prior action #3: To enable affordable and secure digital payment transactions, the Governor of the Central Bank of Tunisia has signed Circular No.2020-11 on May 15, 2020 and published on May 18, 2020, specifying the terms and conditions for offering mobile payments and the requirements for the interoperability of payment systems.	Trigger #3: To improve the supervision of digital financial services, the Governor of the Central Bank and the Minister of Communication Technologies and Digital Transformation will sign a MoU on the supervision of financial activities, including digital payment services, of La Poste.	Results Indicator #3: Increase in digital payment transactions (in percent per annum)	15	20
Prior action #4: To improve access to credit of enterprises and microfinance institutions affected by the COVID-19 crisis, the	Trigger #4: To strengthen and promote the development of the microfinance sector, the	Results Indicator #4: Volume of loans for firms covered by the new partial guarantee	0 (0)	500 (5)

Prior actions and Triggers		Results		
Borrower's Minister of Finance and the Société Tunisienne de Garantie have signed an Agreement (Convention) dated 11 May 2020 as amended on May 19, 2020, that implements a new partial credit guarantee fund scheme and sets the operating principles ensuring financial sustainability and rapid deployment.	financial and supervisory authorities will take actions to align the legal and institutional framework on best practices including regarding supervision modalities, diversification of funding sources and savings mobilization.	scheme, in TND million (of which to MFIs, in TND million). Note: loan ceiling per institution is TND 1 million. There are seven licensed MFIs as of mid-2020. Results Indicator #5: Number of active micro-borrowers (of which share of women, in percent)	422,000 (55)	525,000 (56)
Pillar 2. Enabling private sector recovery				
Prior Action #5: To improve trade and logistics performance at the Port of Radès, the Borrower has: (a) streamlined trade procedures for critical supply chains given the COVID-19 pandemic (including medicine, health equipment and food), pursuant to Joint Circulaire by Minister of Finance and Minister of Trade dated May 12, 2020; (b) digitized specific international trade-related procedures pursuant to DG Customs' Decisions dated May 14, 2020; and (c) provided the necessary space for container operations through the separation of container and roll-on/roll-off traffic and the future expansion of the port, pursuant to Amendment No. 2 to the Concession Agreement between OMMP and STAM dated May 14, 2020.	Trigger #5: To improve the Port of Radès efficiency, the Borrower will adopt a decision enabling port cost reduction, rather than maximizing revenues, through the future quays 6-7-8-9 concession to contribute to the country's economic competitiveness.	Results Indicator #6: Container dwell time (in days) Results Indicator #7: Handling productivity (containers/hour)	18 8	15 12

Prior actions and Triggers		Results		
Prior action #6: To support post-COVID-19 recovery by leveraging private financing for renewable electricity generation, the Minister of Energy, Mines and Energy Transition has issued Ministerial Order (“Arrêté”) dated May 28, 2020 and published in the Official Gazette No. 48 dated May 28, 2020 and Ministerial Decision dated May 27, 2020, complementing Decree No.105-2020 applying the Transversal Law (Law No.47-2019), to set the conditions for private sector special purpose vehicles that generate renewable energy to sell power to its shareholders using *Société Tunisienne de l’Electricité et du Gaz* (STEG) transmission and distribution network.	Trigger #6: The Ministry of Energy, Mines and Energy Transition will issue (i) a Ministerial Order (“Arrêté”) setting the contractual framework between self-generators and STEG for the transport of power and the sale of excess power and (ii) a Ministerial Decision revising the medium voltage transport tariff under the same self-generation scheme on the basis of a cost of service study (satisfactory to the WBG).	Results Indicator #8: Private RE capacity developed under the self-generation scheme (in megawatt).	26	180
	Trigger #7: To improve the efficiency of the air transport industry, the government will swiftly implement the first stage of an “Open Skies” regime with the European Union, which will provide third and fourth freedom rights to European and Tunisian carriers	Results Indicator #9: Increase in the traffic with the European market following the enactment of the “Open Skies” (in percent relative to baseline)[66]	0	7

[66] The WBG Air Transport Note “Tunisia and the Potential for Open Skies with the European Union” found that based on the Morocco experience, an Open Skies regime could increase traffic in Tunisia with the European market by 15 to 20 percent (pre-COVID-19 context).

Prior actions and Triggers		**Results**		
	Trigger #8: To accelerate NPL resolution, the Council of Ministers has approved and transmitted to Parliament a draft Law that will authorize those transactions where a public bank has accepted a write-off (*remise de dettes*) based on defined objective criteria and ease the requirements for write-off transactions (*radiation*) across all banks. Such legislation will be published in the National Gazette.	Results Indicator #10: Volume of category 4 loans (loans older than 8 years) in the three largest public banks, in TND million. Note: baseline is December 2018. Category 4 are loans with overdue payments of more than 360 days. The three public banks are STB (*Societe Tunisienne de Banque*, BNA (*Banque Nationale Agricole*) and BH (*Banque de l'Habitat*).	2,583	2,066
Pillar 3. **Improving transparency and performance in the SOE sector**				
Prior action #7: To improve fiscal transparency, the Borrower has published on the website of the Ministry of Finance the following reports annexed to the 2020 Budget Law: (a) a report on central government debt including contingent liabilities from SOEs; (b) a report on SOE finances, including their debt; as mandated by the Borrower's Organic Budget Law No. 2019-5, dated February 13, 2019 and published in the Official Gazette No.15 dated February 19, 2019.		Results Indicator #11: Regular publication of reports on debt, including contingent liabilities from SOEs, and SOE financial performance annexed to the approved annual Budget Law	No	Yes
Prior action #8: To improve the governance of SOEs, the Borrower has approved: (a) the application of merit-based appointments for boards of directors and a minimum number of independent directors in SOEs,	Trigger #9: The boards of directors of at least five of the largest SOEs in priority sectors (electricity, water, sanitation and transport) will be renewed according to the new board	Results Indicator #12: The share of SOEs by turnover that have published their audited financial reports for year n during year n+1 on the	0%	60%

Prior actions and Triggers		Results		
pursuant to Decree No. 2020-314, dated May 19, 2020 and published in the Official Gazette No. 44 dated May 19, 2020; and (b) the timely publication of the SOEs' annual audited financial statements pursuant to Prime Minister's Circulaire No. 17 dated May 18, 2020.	nomination policy. Trigger #10: The new SOE Law will be enacted.	national company registry (RNE) or on their website (in percent of total turnover, non-financial SOEs)		
Prior action #9: To reduce receivables and cashflow challenges among the SOEs in core public services so that they can ensure quality services particularly during COVID-19 recovery, the Borrower's Minister of Finance has issued *Circulaire* No. 541 dated May 14, 2020 to establish a mechanism for the payment of bills to STEG, *Société Nationale d'Exploitation et de Distribution des Eaux* (SONEDE) and *Office National de l' Assainissement* (ONAS) by relevant public entities with concrete compliance rules.	Trigger #11: To improve the performance and financial sustainability of SOEs, the government will adopt comprehensive restructuring plans for at least two of the largest SOEs in priority sectors (electricity, water, sanitation and transport). Trigger #12: The government will adopt and implement new policies and actions to reduce the fiscal cost of energy subsidies, through either (i) the reduction of LPG subsidies; or (ii) the indexation of end-user tariffs of natural gas or electricity to the purchase price of natural gas, the exchange rate, and the inflation rate through a formula, with tariff adjustments at least quarterly.	Results Indicator #13: Operating revenue-to-operating cost ratio (excluding depreciation and provisions on the cost side subsidies on the revenue side), in percent. Note: Baseline values are for 2018. The target is the same for all SOEs. Results Indicator #14: Operating cash flow-to-debt service ratio (excluding subsidies), in percent. Note: Baseline values are for 2018. The target is the same for all SOEs.[67] Results Indicator #15: LPG,	STEG (0.81), SONEDE (1.11), ONAS (1.08), and TUNISAIR (1.03) STEG (NA because of negative cash flow in 2018), SONEDE (0.37), ONAS (0.05), and TUNISAIR (0.14)	1.3 0.25 0.8

[67] A ratio above 1 is needed for results indicator #15 in order to ensure financial sustainability, but the target recognizes the low level of the baseline and that incremental improvements will be needed for SOEs to strengthen their balance sheets.

Prior actions and Triggers		Results		
		electricity and gas subsidies (percent of GDP). Note: WB calculations using the price gap methodology.	1.7	

ANNEX 2: FUND RELATIONS ANNEX

IMF Press Release – April 10, 2020

IMF Executive Board Approves a US$745 Million Disbursement to Tunisia to Address the COVID-19 Pandemic

- The IMF Executive Board approved a US$745 million emergency assistance loan to support Tunisia's pro-active policy response to the COVID-19 pandemic.
- The economic impact of the COVID-19 pandemic is rapidly unfolding, with a sharp fall in growth expected for 2020.
- The IMF's emergency support will provide additional resources for the health sector, social safety nets, and businesses hit by the crisis. It will also ensure an adequate level of international reserves.

WASHINGTON, DC – The Executive Board of the International Monetary Fund (IMF) today approved a disbursement in the amount of SDR 545.2 million (US$745 million or 100 percent of quota) for Tunisia under the Rapid Financing Instrument (RFI). These resources will help address urgent fiscal and balance of payments needs stemming from the outbreak of the COVID-19 pandemic.

Tunisia's economy is expected to contract by 4.3 percent in 2020 under the weight of COVID-19. It would be the deepest recession since its independence in 1956. The IMF financing will help the authorities cover large fiscal and balance of payments needs, estimated at 2.6 and 4.7 percent of GDP, respectively.

The IMF financing will support the authorities' emergency measures to contain the spread of the virus and mitigate its human, social, and economic toll amid unprecedented uncertainty. These measures involve raising health spending, strengthening social safety nets, and supporting small- and medium-sized firms hit by the crisis. The IMF financing will also ensure an adequate level of international reserves and catalyze additional donor financing.

The authorities are committed to maintaining prudent economic policies and resuming fiscal consolidation once the crisis abates to ensure macroeconomic stability and the sustainability of Tunisia's debt.

Following the Executive Board discussion. Mr. Mitsuhiro Furusawa, Deputy Managing Director and Chair, made the following statement:

"The COVID-19 pandemic has hit Tunisia hard. The pandemic will worsen Tunisia's already elevated macroeconomic imbalances and will also create urgent fiscal and balance of payment needs. The economy is expected to contract by 4.3 percent in 2020.

"The authorities are taking emergency measures with a focus on the health sector, the social safety net, and firms that come under stress.

"The authorities have also taken steps to limit fiscal pressures, including a mechanism for automatic fuel price adjustment, emergency savings in the civil service wage bill, and a rescheduling of lower-priority public investment.

"In support of the authorities' efforts, the RFI purchase will provide most of the financing to implement the fiscal crisis-response measures and ensure an adequate level of international reserves.

“Macroeconomic stability and debt sustainability hinge on strong policy and reform implementation. The authorities are committed to resuming fiscal consolidation once the crisis abates. These efforts will include a reduction of the civil service wage bill as a share of GDP and further energy subsidy reforms, taking into account the social implications.

“The Central Bank of Tunisia is committed to tighten monetary policy in case of exchange rate or inflation pressures and refrain from large-scale FX interventions to protect international reserves.

“Additional concessional and grant financing from external partners is critical to help Tunisia respond to the COVID-19 crisis. It will also help preserve the sustainability of its debt.”

ANNEX 3: LETTER OF DEVELOPMENT POLICY

République Tunisienne
Ministère du Développement, de l'Investissement
et de la Coopération Internationale
Le Ministre

N° 02 – 0020
26 MAI 2020

Monsieur David Malpass
Président de la Banque Mondiale
1818 H Street,
NW Washington DC
ÉTATS-UNIS.

Lettre de politique de développement
Programme d'Appui bugétaire
Résilience et relance en Tunisie 2020-2021

Monsieur le Président,

La Tunisie a réussi à instaurer les fondements d'une démocratie naissante confortée par des institutions constitutionnelles et indépendantes solides et ce, outre la mise en place d'un cadre juridique et réglementaire propice pour la bonne gouvernance et la lutte contre la corruption.

Nonobstant l'envergure et la teneur des réformes adoptées durant les dernières années, la période de transition économique a été marquée par des développements peu favorables outre les répercussions des contraintes d'ordre politique, économique et social. Les réalisations économiques et sociales étaient mitigées et en deçà des aspirations et des objectifs recherchés.

Cette situation a été fragilisée davantage par la propagation de la pandémie COVID-19 à l'échelle mondiale et son importation en Tunisie. En effet, cette crise inédite de santé publique a eu un impact immédiat et lourd en répercussions économiques et sociales.

L'activité économique nationale a été fortement exposée à la propagation de cette crise à cause de la multitude des canaux de transmission directs et indirects particulièrement la perturbation des chaines d'approvisionnement, la fermeture des frontières, et l'instauration de mesures visant à limiter la propagation du virus afin de sauver des vies (distanciation sociale, couvre-feu, confinement etc.) Les secteurs productifs directement impactés par la crise sont à forte employabilité et ont des effets d'entrainement substantiels sur l'activité économique dans son ensemble. Les enquêtes récentes ont montré que plus que 80% des petites et moyennes entreprises tunisiennes ont accusé un ralentissement notable de la production et des ventes depuis le déclenchement de la crise.

L'impact social de cette pandémie a été ressenti au niveau du système de santé publique avec des moyens limités et aussi au niveau de la fragilité de la situation sociale des ménages pauvres et à faible revenu ainsi que ceux ayant des emplois précaires ou travaillant dans le secteur informel.

Face à cette crise sanitaire inédite, le Gouvernement a adopté une stratégie proactive comportant l'adoption de mesures graduelles allant jusqu'au confinement total. Le Gouvernement a également rapidement adopté des mesures fortes de réponse à la crise économique engendré par le COVID-19 afin de protéger et soutenir les entreprises et les ménages affectés et notamment les catégories les plus vulnérables.

Partant de l'indissociabilité des dimensions conjoncturelles et structurelles dans la conduite et le pilotage des affaires publiques et la nécessité de consolider les acquis au titre de l'édification de la démocratie naissante, le Gouvernement a affiché une volonté manifeste pour limiter les répercussions de cette crise dans un contexte d'incertitude et de montée de risques à l'échelle internationale tout en persévérant sur la voie des réformes économiques et sociales afin de renforcer la résilience institutionnelle, sociale et économique et poser les bases d'une relance forte.

Evolution du contexte global … importance de l'élan de réforme

Démocratie naissante … renforcement de la bonne gouvernance

Forte d'acquis constitutionnels et de bonnes pratiques démocratiques, la Tunisie a réussi à organiser des élections présidentielles et législatives libres et transparentes dans les délais constitutionnels couronnées par l'investiture du nouveau Gouvernement.

De surcroit, l'instauration graduelle de la décentralisation en tant que nouveau mode de gouvernance locale consacrée par le code des collectivités locales et les textes d'application y afférents, est de nature à consacrer la libre gouvernance des autorités locales, l'indépendance financière des municipalités, la libre administration des affaires locales et la démocratie locale participative.

Par ailleurs, la volonté du Gouvernement à instaurer les fondements de la bonne gouvernance s'est traduite par l'accélération de la mise en place de l'Instance Constitutionnelle Indépendante de la Bonne Gouvernance et de la Lutte Contre la Corruption et l'application des dispositions des deux lois relatives à la déclaration de patrimoine et de lutte contre la corruption, l'enrichissement illicite et les conflits d'intérêt dans le secteur public et à l'accès à l'information.

Etant signalé que les efforts du Gouvernement pour consacrer la transparence et l'alignement de la réglementation nationale aux standards internationaux ont favorisé la sortie de la Tunisie de la liste grise des paradis fiscaux établie par l'UE en mars 2019 et la confirmation en octobre 2019 de la conformité de la législation et pratique tunisiennes aux règles et principes de GAFI.

Un climat des affaires propice à la relance économique

Des progrès importants ont été réalisés en matière de mise en œuvre des réformes économiques majeures axées sur la libéralisation du potentiel économique, l'amélioration de l'environnement des affaires et la promotion de l'investissement privé.

Une loi relative à l'amélioration du climat des investissements a été adoptée en juin 2019 afin de libérer davantage l'initiative privée et améliorer la compétitivité des entreprises. Les principaux axes de cette loi concernent la simplification des procédures de création d'entreprise, la facilitation de l'accès au financement, l'amélioration de l'attractivité pour les Investissements Directs Étrangers avec l'ouverture de certains secteurs, l'amélioration du cadre législatif des partenariats Public-Privé, le renforcement de la gouvernance des sociétés qui font appel public à l'épargne et le renforcement des droits des investisseurs minoritaires

L'engagement en faveur d'une transition énergétique s'est consolidé par l'octroi de concessions de production d'énergie photovoltaïque en mode PPP ; Cet engagement s'est renforcé par l'adoption d'un cadre réglementaire régissant la production et la distribution des énergies renouvelables.

Dans le même sillage, l'orientation vers davantage d'investissement en mode PPP est confortée par l'identification et le lancement de nouveaux projets dans les secteurs de l'assainissement et de l'eau.

De surcroit, la promotion de l'économie numérique et des nouvelles technologies a connu un saut qualitatif considérable en relation avec les potentialités en capital humain et l'importance de l'infrastructure existante. L'effort de digitalisation a concerné principalement la modernisation des prestations administratives, la mise en ligne des déclarations fiscales, la digitalisation des procédures de commerce extérieur, les domaines des transferts sociaux, de l'éducation et de la santé, ….

Concomitamment, la promotion de l'innovation et des chaines de valeurs a été renforcée par l'adoption de la loi sur les Startups « Startup Act » et l'engagement pour une nouvelle stratégie industrielle.

Pour une résilience et une inclusion sociale plus forte

Les efforts du Gouvernement ont porté principalement sur la consécration de la paix sociale et le soutien aux couches vulnérables tout en privilégiant une approche participative de dialogue et de concertation.

La politique de promotion sociale a été axée sur l'élargissement et l'affinement du champ des bénéficiaires du Programme National d'Aide aux Familles Nécessiteuses (PNAFN). La réponse immédiate du Gouvernement face à la crise du COVID-19 a privilégié en premier lieu une expansion des filets sociaux en faveur des plus vulnérables, y compris des transferts monétaires.

Cependant, les réformes en cours portent sur un meilleur ciblage des aides publiques à travers la finalisation de la « banque de données sur les familles nécessiteuses et à revenu limité » et l'élaboration d'un identifiant unique pour les citoyens favorisant l'interopérabilité entre les différents systèmes et registres sectoriels. Ces reformes contribueront à améliorer l'efficacité des programmes sociaux, et des services publics de manière plus générale, et de répondre de manière plus rapide pour protéger les plus vulnérables face aux crises.

La mise en œuvre effective du programme « Amen Social » est de nature à (i) consacrer le droit à un revenu minimum fixe et de bénéficier des interventions sociales urgentes et (ii) mettre en place un système intégré favorisant le développement du capital humain et la lutte contre la transmission intergénérationnelle de la pauvreté.

Parallèlement, la stratégie d'inclusion financière et de l'économie sociale et solidaire seront renforcées davantage afin de faciliter l'insertion des jeunes et l'autonomisation économique des femmes particulièrement dans les régions de l'intérieur.

Cadrage macroéconomique … acuité de l'impact de COVID-1

Stratégie proactive face à une crise de santé publique

Face à cette crise inédite de santé publique et particulièrement une contamination horizontale de plus en plus importante, la priorité du Gouvernement a été de contenir la propagation de ce virus en privilégiant la préservation des vies humaines et se référant aux recommandations de l'OMS ainsi qu'aux expériences internationales. Les axes de cette stratégie sont :

- Une gestion dynamique du système de santé publique national avec des mesures graduelles allant de la fermeture des établissements scolaires et universitaires, la fermeture des frontières, la fermeture des lieux publics, l'annulation des foires et expositions, l'instauration d'un couvre-feu nocturne jusqu'à l'annonce d'un confinement général depuis le 20 mars 2020.

Parallèlement, l'action du ministère de la santé publique a été focalisée sur la mise en place d'un protocole sanitaire COVID-19 nécessitant l'acquisition d'équipement médical et paramédical et des médicaments nécessaires pour les services hospitaliers.

- L'adoption d'un ensemble de mesures de soutien à vocation sociale et économique ; Le Gouvernement a décrété un plan d'urgence pour soutenir les familles nécessiteuses à travers des subventions monétaires directes et l'allègement des charges financières pour les ménages.

Au plan économique, les mesures adoptées visent à soutenir les entreprises directement impactées par la crise afin de sauvegarder les emplois et appuyer leur résilience. Les principales dispositions portent sur le report des échéances de paiement des charges sociales et fiscales ainsi que les crédits bancaires et ce, pour une période limitée. Ces mesures sont confortées par la création de fonds d'investissement et de restructuration dédiés aux entreprises sinistrées ainsi que d'un nouveau mécanisme de garantie des crédits aux entreprises affectées. Aussi, l'autorité monétaire a annoncé la révision à la baisse du taux directeur et la mise en place de facilité de refinancement du secteur bancaire.

Ces mesures sont corroborées par une bonne coordination institutionnelle facilitant leur mise en œuvre et la publication de décrets lois nécessaires pour lutter contre l'épidémie du Coronavirus et limiter les répercussions.

Estimation du nouveau cadrage macroéconomique

Les estimations préliminaires de l'impact de COVID-19 sur l'économie tunisienne montrent une récession sans précédent ; La baisse de la croissance oscillerait entre 4% et 6% % en 2020 contre des prévisions de 1.6% (avant Coronavirus) ; Le déficit budgétaire serait impacté par le coût des interventions publiques et des mesures annoncées pour faire face à cette pandémie qui sont estimés actuellement entre 2.6% et 3% du PIB.

Ces estimations ont généré des besoins de financement extérieurs additionnels pour le Budget de l'Etat dans un contexte d'instabilité au niveau des marchés financiers internationaux.

A ce stade, il importe de noter que la Tunisie a réussi à mobiliser des ressources de financement extérieur grâce à un recours exceptionnel à un Rapid Financing Instrument RFI avec le Fond Monétaire International (745 M$) et un appui considérable de l'UE sous forme d'une nouvelle Assistance Macro Financière AMF et de dons (250 MEuro).

Ceci outre l'avancement du programme d'appui budgétaire conjoint avec la Banque mondiale, la Banque africaine de développement, la JICA, la KFW et l'AFD et la mobilisation de ressources supplémentaires dans le cadre de la coopération régionale et bilatérale.

Également, le Gouvernement a mobilisé des ressources d'emprunt intérieur sous forme de deux prêts en devise auprès des institutions financières tunisiennes ainsi que des bons de trésor.

Nouvelles priorités et réformes économiques et sociales

Le Gouvernement s'attèle à concevoir un plan de relance économique appuyé par les potentialités existantes et les nouvelles opportunités offertes.

Les priorités de court terme concernent l'adoption d'un ensemble de mesures pour gérer la période post-confinement particulièrement au titre des nouvelles exigences sanitaires et soutenir davantage les entreprises et les ménages sinistrés par COVID-19.

Le programme de réformes s'articulerait autour des principaux axes suivants :

- Renforcement du cadre réglementaire et institutionnel de lutte contre la corruption et l'enracinement d'une culture de bonne gouvernance.

- Amélioration de l'attractivité du climat des affaires et accélération de la digitalisation et de la modernisation des prestations des services publics.

- Adoption de nouvelles stratégies sectorielles orientées vers une meilleure intégration des nouvelles technologies et des chaines de valeur.

- Promotion du capital humain pour une meilleure équité et inclusion sociale.

- Meilleure gouvernance des affaires locales et du développement régional.

En appui à la mise en œuvre de ces réformes de court ou de moyen terme, le Gouvernement tunisien s'attèle aujourd'hui à finaliser les discussions techniques avec le FMI pour un nouveau programme ; Mécanisme Elargi de Crédit (Extended Fund Facility) qui viendrait à se mettre en place suite la cloture en mars 2020 de l'ancien programme.

Les Axes du programme d'appui budgétaire « Résilience et Relance en Tunisie 2020-2021 ».

Le nouveau programme d'appui aux politiques de développement de la Banque Mondiale « Résilience et Relance en Tunisie 2020-2021 » fait partie d'un programme d'appui conjoint des Partenaires Techniques et Financiers à la Tunisie afin qu'elle puisse faire face à la crise du COVID-19 et à ses répercussions budgétaires, économiques et sociales. Les institutions internationales qui se sont jointes à ce programme d'appui conjoint sont la KfW, la JICA, l'AFD et la BAD. Cet appui conjoint se positionne également en coordination étroite avec celui de l'Union européenne.

Le Gouvernement tunisien, en concertation avec la Banque Mondiale, a opté pour une approche programmatique sur deux années 2020 et 2021 pour ce programme de réformes ambitieux, et ce afin de continuer les réformes entamées cette année en 2021 et ainsi de voir des impacts durables.

Le programme « Résilience et Relance en Tunisie 2020-2021 » couvre trois principaux piliers de politique économique qui visent à accélérer les réformes du système des filets sociaux pour renforcer la résilience économique et sociale et l'inclusion, à favoriser la reprise et la relance du secteur privé et à améliorer la transparence et la performance des entreprises publiques.

Pour chacun des trois piliers, le Gouvernement a déjà enclenché les réformes pour l'année 2020 et qui seront poursuivies et consolidées en 2021.

Ainsi, Les réformes engagées par le Gouvernement pour l'année 2020 pour les trois piliers sont :

Pilier 1 : Renforcer la résilience et l'inclusion

Le Gouvernement tunisien a accéléré la réforme de son système de protection sociale afin d'assurer un déploiement plus rapide des interventions et d'améliorer les services qui protègent les citoyens et renforcent leur résilience face aux chocs, et ce à travers les mesures suivantes :

i) Dans le but de renforcer la capacité du système de protection sociale à répondre à la crise COVID-19 et aux chocs futurs et d'améliorer la résilience des ménages, le Gouvernement a réalisé les actions suivantes :

- L'extension des transferts monétaires dans le cadre de la réponse immédiate au COVID-19;
- L'approbation et la publication d'un décret gouvernemental fixant les critères d'éligibilité et le processus de prestation des différents services du programme AMEN Social;
- La publication d'un arrêté ministériel pour adopter et mettre en œuvre un nouveau modèle de ciblage des programmes d'assistance sociale ;
- Le Conseil des Ministres a pris la décision d'intégrer des services sociaux supplémentaires dans le registre AMEN Social, sous l'égide su Conseil du développement Social après sa création.

ii) Afin d'accélérer la mise en place d'un cadre juridique d'identification numérique des citoyens et d'interopérabilité pour une meilleure prestation et pour plus d'efficacité des programmes sociaux, le Gouvernement a approuvé et publié au JORT :

- Un décret- loi sur l'Identifiant Unique des Citoyens (IUC) ;
- Un décret gouvernemental d'application du décret- loi sur l'identification unique des citoyens fixant les objectifs de l'IUC, son contenu et ses spécifications techniques ; définissant les agences utilisateurs autorisées et les finalités de leur utilisation ; et définissant le protocole et l'interopérabilité des processus liés à l'IUC.

iii) Pour accélérer le développement et l'adoption des paiements numériques, le Gouverneur de la Banque centrale a publié une circulaire qui précise les modalités et conditions de l'offre de paiement mobile.

8

iv) Pour améliorer rapidement l'accès au crédit des entreprises et des institutions de micro finance touchées par le COVID-19, le Ministère des Finances et la Société Tunisienne de Garantie (SOTUGAR) ont signé un accord mettant en œuvre un nouveau système de fonds de garantie partielle du crédit et les principes de fonctionnement garantissant la viabilité financière et le déploiement rapide.

A l'horizon 2021, le Gouvernement continue de renforcer les systèmes d'identification et d'authentification des citoyens et des bénéficiaires des programmes sociaux, d'élargir la couverture et l'efficacité des programmes sociaux et de promouvoir le développement des moyens de paiement digitaux. Le renforcement du secteur de la microfinance demeure un axe important de la stratégie du Gouvernement pour promouvoir l'inclusion financière

En effet, Le Gouvernement tunisien poursuit la réforme du système de protection sociale afin de renforcer la résilience des citoyens et d'améliorer leur inclusion. Des mesures seront entreprises en 2021, on cite notamment :

i) Afin d'améliorer l'adéquation et l'efficacité des transferts monétaires et de la couverture santé pour les ménages pauvres et vulnérables :

➢ Les Ministres des Affaires Sociales et des Finances émettront un arrêté ministériel conjoint pour mettre à jour les montants des transferts monétaires ;

➢ De nouvelles cartes digitales d'assurance-maladie pour les bénéficiaires des programmes d'assistance sociale seront émises.

ii) Le registre de l'IUC sera déployé et mis en œuvre dans des programmes prioritaires y compris dans les secteurs de la protection sociale, la taxation, l'éducation et la justice.

iii) Le Gouverneur de la Banque Centrale de Tunisie et le Ministre des Technologies de la Communication et de la Transformation Digitales signeront un protocole d'accord sur la supervision des activités financières, y compris les services de paiement numérique de la Poste.

iv) Afin de renforcer le secteur de la micro-finance et de promouvoir son développement sain, les autorités financières et de surveillance prendront des mesures pour aligner le cadre juridique et institutionnel sur les meilleures pratiques, notamment en ce qui concerne les modalités de surveillance, la diversification des sources de financement,…

Pilier 2 : Favoriser la reprise et la relance du secteur privé

La stratégie de relance économique du Gouvernement se base sur les réformes de l'environnement des affaires et celles des entreprises publiques pour attirer davantage d'investissements privés, améliorer la compétitivité, renforcer le secteur bancaire et financier et accroître la résilience économique. Pour ce faire, le Gouvernement a mis en place les actions suivantes :

i) Afin d'améliorer les performances logistiques du port de Radès, le Gouvernement a adopté des décisions visant à : (a) rationaliser les procédures commerciales pour les chaînes d'approvisionnement critiques compte tenu de la pandémie du COVID-19 (médecine, équipements de santé, alimentation); b) numériser les procédures spécifiques liées au commerce international (c) modifier l'accord de concession actuel entre l'Office de la Marine Marchande et de PORT (OMMP) et la Société Tunisienne d'Acconage et de Manutention (STAM) afin de prévoir l'espace nécessaire pour les opérations de conteneurs dans un objectif final de mettre en œuvre un partenariat stratégique rentable permettant d'avoir un impact conséquent en termes d'amélioration de la gestion portuaire et logistique.

ii) Afin de mobiliser des financements privés pour la production d'électricité et de réduire son coût, le Ministre de l'Energie, des Mines et de la Transition Energétique a émis un arrêté complétant le Décret No.105-2020 appliquant la loi n°47-2019 portant sur l'Amélioration du Climat des Affaires, fixant le niveau minimal de la puissance souscrite individuelle de l'auto consommateur ou des auto consommateurs ouvrant le droit de vente de l'électricité produite à partir des énergies renouvelables.

Par ailleurs, Le Gouvernement sera attelé en 2021 à poursuivre l'amélioration des conditions d'investissement afin de continuer à appuyer la reprise du secteur privé, et ce dans le cadre des des réformes continues du climat des de l'investissement ayant pour objectif d' améliorer la compétitivité et d'accroître la résilience économique, il s'agira notamment :

i) Afin d'améliorer l'efficacité du Port de Radès, le Gouvernement adoptera une décision permettant de réduire les coûts du port, plutôt que de maximiser les revenus, grâce à la future concession des quais 6-7-8-9 pour contribuer à la compétitivité économique du pays.

ii) Le Ministère de l'Energie, des Mines et de la Transition Energétique publiera un décret fixant le cadre contractuel entre les auto-producteurs et la STEG pour le transport de l'électricité et la vente de l'énergie excédentaire.

iii) Pour promouvoir l'efficacité de l'industrie du transport aérien, le Gouvernement adoptera une décision pour mettre rapidement en œuvre la première étape d'un régime « Ciel ouvert » avec l'Union européenne, qui accordera des droits de troisième et quatrième libertés aux transporteurs européens et tunisiens.

iv) Afin d'améliorer la résolution des créances accrochées , le Gouvernement a approuvé une législation qui autorisera les transactions pour lesquelles une banque publique a accepté une remise de dettes sur la base de critères objectifs définis et assouplira les exigences relatives aux transactions de radiation dans toutes les banques.

Pilier 3. Amélioration de la transparence et de la performance des entreprises publiques

Dans ce contexte, le Gouvernement met l'accent sur l'amélioration de la performance et de la transparence du secteur public comme base pour renforcer la gestion du secteur public, favoriser la confiance des citoyens dans les institutions et accroître la compétitivité du secteur privé. Le Gouvernement a pris les mesures suivantes pour l'année 2020.

i) Pour améliorer la transparence budgétaire, les rapports suivants annexés à la loi de finances annuelle sont publiés sur le site Internet du Ministère des finances conformément à la nouvelle loi organique de finances, approuvée en janvier 2019 : (a) un rapport sur la dette publique, y compris les passifs éventuels envers les entreprises publiques ; b) un rapport sur les finances des entreprises publiques, y compris leur dette.

ii) Pour améliorer la gouvernance des entreprises publiques (a) un Décret Gouvernemental été adopté par le Gouvernement introduit une nouvelle politique de nomination des administrateurs des entreprises basée sur le mérite et mandate au moins deux administrateurs indépendants ; (b) le Chef du Gouvernement a émis une Circulaire rappelant la nécessité de publier les états financiers annuels audités des entreprises publiques.

iii) Pour réduire les créances et les difficultés de trésorerie parmi les entreprises publiques des principaux services publics afin qu'elles puissent assurer des services ininterrompus pendant l'après crise du COVID-19, le gouvernement a adopté un mécanisme pour faire respecter le paiement des factures en temps opportun à la STEG, la SONEDE et l'ONAS par toutes les entités publiques recevant des transferts budgétaires avec des règles de conformité concrètes et ce à travers les allocations budgétaires suffisantes pour le paiement des factures, la suspension des décaissements budgétaires à toute entité dont les factures sont en souffrance. Cette mesure prendra effet à partir du 1er janvier 2021.

Au-delà de ces mesures immédiates pour renforcer la gouvernance des entreprises publiques, le Gouvernement compte accélérer les réformes de profondeur pour assainir et améliorer la performance de ce secteur important pour l'économie. c'est ainsi que le Gouvernement est engagé à travailler avec le Parlement pour une adoption avant la fin de l'année 2020 d'une nouvelle loi sur la gouvernance des entreprises publiques qui consacrera entre autres les principes de transparence, de réddition des comptes et la création d'une entité centralisée pour la gestion du portefeuille actionnariale de l'Etat.. De plus, le Gouvernement mènera la restructuration d'entreprises publiques en difficulté sur la base de plans de restructuration compréhensifs et en priorisant les secteurs de l'électricité, de l'eau, de l'assainissement et du transport.

Finalement pour réduire les subventions énergétiques d'ici 2021, le Gouvernement mettra en œuvre des actions concrètes visant à réduire les subventions énergétiques, soit en priorisant le GPL ou bien le gaz naturel ou bien l'électricité. Concernant le gaz naturel et l'électricité, une des solutions envisagées consiste en l'instauration d'une formule transparente d'ajustement des prix (au moins trimestriel) qui rendent compte entre autres du prix d'achat du gaz naturel, du taux de change et de l'inflation.

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Conscient des enjeux du nouveau contexte économique et social ébranlé par la pandémie, le Gouvernement s'engage à approfondir et à accélérer le rythme des réformes structurelles appropriées pour favoriser une meilleure résilience économique et sociale et asseoir les fondements d'une croissance durable et inclusive. Cet effort de réforme requiert davantage de soutien financier que l'appui de la Banque Mondiale favoriserait la concrétisation.

Ministère du Développement de l'Investissement et de la Coopération Internationale

Signé: Mohamed Selim AZZABI

12

Unofficial translation of the Letter of Development Policy

Republic of Tunisia
Ministry of Development, Investment and International Cooperation

May 26, 2020

Mr. David Malpass
President of the World Bank Group
The World Bank
1818 H Street, NW
Washington DC, 20433
The United States of America

Budget Support Program: Resilience and Recovery in Tunisia 2020-2021

Mr. President of the World Bank Group,

Tunisia has succeeded in laying the foundations for a fledgling economy supported by strong independent constitutional institutions in addition to establishing a legal and regulatory framework conducive to good governance and the fight against corruption.

Notwithstanding the scope and content of the reforms adopted in recent years, the economic transition period has been marked by unfavorable developments, in addition to the political, economic and social constraints. Economic and social achievements were mixed and fell short of goals and expected results.

This situation has been further weakened by the spread of the global COVID-19 pandemic and its importation into Tunisia. Indeed, this unprecedented public health crisis has had and immediate and heavy economic and social impact.

National economic activity has been highly exposed to the propagation of the crisis because of the multitude of direct and indirect transmission channels, particularly the disruption of supply chains, the closing of borders and the introduction of measures to limit the spread of the virus to save lives (social distancing, curfew, lockdown etc.) The productive sectors directly affected by the crisis have a high employment potential and a substantial ripple effect on the entire economic activity. Recent surveys showed that more than 80% of small and medium sized enterprises in Tunisia have experienced a significant downturn in production and sales since the beginning of the crisis.

The social impact of this pandemic was felt at the level of the public health system with limited means and at the level of the fragility of the social situation of and by poor and low-income households as well as those and workers with precarious jobs or working in the informal sector.

Faced with this unprecedented health crisis, the Government adopted a proactive strategy involving the adoption of gradual measures up to total lockdown. The Government also quickly adopted strong response measures to respond to the economic crisis caused by COVID-19 to protect and support most affected businesses and households, in particular the most vulnerable groups.

Based on the indissociably of the cyclical and structural dimensions in the conduct and management of public affairs and on the need to consolidate achievements in building the nascent democracy, the Government has shown a clear determination to limit the impact of the crisis in a context of uncertainty and rising risks worldwide, while persevering on the path of economic and social reforms, to strengthen institutional, social and economic resilience and lay the foundations for a strong recovery.

Evolution of the global context … importance of the reform momentum

Nascent democracy … strengthening good governance

Building on its constitutional achievements and good democratic practices, Tunisia succeeded in holding free and transparent presidential and legislative elections within the constitutionally mandated time frame, ending with the inauguration of the new Government.

Moreover, the gradual introduction of decentralization as a new system of local governance enshrined in the Code of local authorities and the relevant implementing texts, aims at enforcing free governance for local authorities, financial independence for municipalities, and free management of local affairs and participatory local democracy.

In addition, the willingness of the Government to lay the foundations of good governance has resulted in accelerating the establishment of the independent constitutional good governance and anti-corruption Authority, and the implementation of the provisions of the two laws: (a) On reporting assets and the fight against corruption, the illicit acquisition of wealth and conflicts of interest in the public sector; and (b) On access to information.

As it has also been reported, the efforts of the Government to enforce transparency and ensure compliance of national regulations with international standards have contributed to removing Tunisia from the grey list of tax heavens established by the EU in March 2019 and to confirming, in October 2019, the compliance of Tunisian legislation and practice with FATF rules and principles.

A business climate conducive to economic recovery

Significant progress has been made in implementing major economic reforms focused on liberalizing economic potential, improving the business environment, and promoting private investment.

A law on improving the investment climate was adopted in June 2019 to further promote private initiative and improve business competitiveness. The main areas of this law concern simplifying the procedures of business creation, facilitating access to finance, improving the attractiveness for Foreign Direct Investments with the opening of some sectors, improving the legislative framework of public-private partnerships, reinforcing the governance of companies which make public offerings, and strengthening the rights of minority investors.

The commitment towards an energy transition was consolidated with the grants of photovoltaic energy generation concessions in PPP mode; this commitment was further reinforced with the adoption of a regulatory framework governing the generation and distribution of renewable energies.

In this connection, the shift towards more PPP investment is enhanced by the identification and launch of new projects in the water and sanitation sectors.

In addition, digital economy and new technologies have experienced a tremendous qualitative support in relation with human capital potential and existing infrastructure. The digitalization effort mainly concerned modernizing administrative services, providing an online option for tax reporting, and digitalizing foreign trade procedures and cash transfers in the social, educational and health sectors, etc.

At the same time, the promotion of innovation and value chains was reinforced with the adoption of the Startup Act and a commitment for a new industrial strategy.

For stronger resilience and social inclusion

The Government's efforts have mainly focused on ensuring social peace and providing support to the most vulnerable categories while encouraging a participatory approach of dialogue and consultation.

The social promotion policy focused on widening and refining the scope of PNAFN beneficiaries (national program of assistance to needy families). The Government immediate response to COVID-19 crisis primarily focused on expanding social safety nets to the most vulnerable, including through cash transfers.

Moreover, current reforms focus on a better targeting of public aid through finalizing the database on poor and low-income households and on creating a unique citizen ID allowing interoperability among the various sector-based systems and social registries. These reforms will ensure higher efficiency of social programs, and public services generally, and faster response to protect the most vulnerable to crises.

The effective implementation of the program 'Amen Social' is likely to (i) establish the right to a fixed minimum income and to emergency social response and (ii) set up an integrated system promoting the development of human capital and the fight against intergenerational transmission of poverty.

At the same time, the strategy of financial inclusion and social economy of solidarity will be further strengthened to facilitate young people insertion and women's economic empowerment particularly in the interior regions.

Macroeconomic framework … sharp impact of COVID-19

Proactive strategy addressing a public health crisis

Faced with this unprecedented public health crisis, particularly an increasingly significant horizontal contamination, Government priority consisted in containing the spread of the virus by prioritizing the preservation of human lives and using WHO recommendations and international experiences for reference. The main areas of this strategy are as follows:

- Dynamic management of the national public health system with progressive measures ranging from closing schools and universities, closing borders, closing public facilities, cancelling fairs and exhibitions, imposing a night curfew, to announcing a general lockdown since March 20, 2020.

  At the same time, the Ministry of Public Health focused on implementing a COVID-19 health protocol requiring medical and paramedical equipment and necessary medication for hospital units.

- Adoption of social and economic support measures: the Government enacted an emergency plan to support poor families through direct cash grants and a reduction of household financial costs.

  At the economic level, the adopted measures aim at supporting the companies most affected by the crisis to increase their resilience and help them save jobs. The main provisions focus on temporarily extending social security and tax payment as well as bank loan repayment deadlines. These measures are supported by the creation of investment and restructuring funds for the affected companies and a new loan guarantee scheme for the hardest hit enterprises. Moreover, the monetary authority decided to downgrade the key rates and create a refinancing facility for the banking sector.

These measures have the backing of a good institutional coordination facilitating their implementation and the publication of necessary legislative decrees to combat the Coronavirus epidemic and limit its implications.

Estimate of the new macroeconomic framework

A preliminary assessment of COVID-19 impact on the Tunisian economy shows an unprecedented recession: the growth decline is between 4% and 6% % in 2020 against estimates of 1.6% (before Coronavirus) ; The budget deficit would bear the impact of the cost of public response and the measures implemented to combat the pandemic, currently estimated between 2.6% and 3% of GDP.

These estimations have generated additional needs for external financing of the State Budget in a context of unstable international financial markets worldwide.

At this stage, it is important to note that Tunisia has managed to mobilize external financing resources with an exceptional use of a Rapid Financing Instrument (RFI) through the International Monetary Fund (US$745 million) and EU considerable support through a new Macro Financial Assistance (MFA) and grants (Euro 250 million).

This is in addition to the advancing joint budget support program with the World Bank, the African Development Bank, JICA, KFW and AFD and the mobilization of additional resources under regional and bilateral cooperation.

The Government also mobilized domestic borrowing resources in the form of two foreign currency loans from Tunisian financial institutions and of treasury bonds.

New priorities and economic and social reforms

The Government is working on designing an economic recovery plan resting on existing potential and new offered opportunities.

Short-term priorities involve adopting a set of new measures for post-lockdown management, particularly in the light of new health requirements and for providing assistance to businesses and households most affected by COVID-19 crisis.

The reform program focuses on the following main areas:

- Strengthening the regulatory and institutional framework against corruption and for establishing a good governance culture.
- Improving the attractiveness of the business climate and accelerating the digitalization and modernization of public services.
- Adopting sector-based strategies geared towards a better integration of new technologies and value chains.
- Promoting human capital for better equity and social inclusion.
- Improving the governance of local affairs and regional development.

To support the implementation of these short- or medium-term reforms, the Tunisian Government is currently working to finalize technical discussions with IMF for a new program, discussions which were initiated following the closure of the Extended Fund Facility in March 2020 and the approval of the RFI in mid-April 2020.

The main areas of the budget support program "Resilience and Recovery in Tunisia 2020-2021"

The new World Bank program of development policy support 'Resilience and Recovery in Tunisia 2020-2021' is part of a joint support program of Tunisia's technical and financial partners to help it face the COVID-19 crisis and its financial, economic and social repercussions. The international institutions part of this joint support program are KfW, JICA, AFD and AfDB. This joint support also takes place in close coordination with the one by the European Union.

In consultation with the World Bank, the Tunisian Government favored a two-year programmatic approach (2020 and 2021) for this ambitious reform program in order to allow reforms started this year to be continued in 2021 and thus to ensure lasting impacts.

The 'Resilience and Recovery in Tunisia 2020-2021' program involves three fundamental areas of economic policy, which aim at accelerating the reforms of the social safety nets system reinforcing economic and social resilience and inclusion, promoting the revival and recovery of the private sector, and improving the transparency and performance of public enterprises.

For each of these three areas, the Government has already initiated reforms for 2020, which will be continued and consolidated in 2021.

Thus, the reforms undertaken by the Government for 2020 in the three areas are the following:

Pillar 1: Strengthening resilience and inclusion

The Tunisian Government has accelerated the reform of its social protection system in order to ensure a faster response and better services that protect the citizens and build their resilience to shocks through the following measures:

i) To reinforce the capacity of the social protection system to respond to the COVID-19 crisis and future shocks and to improve household resilience, the government carried out the following actions:
- It organized cash transfers as part of COVID-19 immediate response;
- It approved and published a government decree setting the eligibility criteria and the implementation process of the different features of the 'AMEN Social' program ;
- It published a ministerial decree to adopt and implement a new targeting model for social assistance programs;
- The Council of Ministers decided to integrate additional social services in the 'AMEN Social' registry, under the Council of Social Development once it is created.

ii) To accelerate the establishment of a legal framework for citizen digital identification and interoperability for a better service and more effective social programs, the Government approved the following and had them published in the Official Gazette:

- Decree-law on the Unique Citizen Identifier (IUC);
- A governmental decree to implement the decree-law on the unique citizen identification fixing IUC goals, its content and technical specifications, defining authorized user-agencies and the purposes of their use, and determining the protocol and interoperability of processes related to IUC.

iii) To accelerate the development and adoption of online payments, the Governor of the Central Bank published a circular specifying the terms and conditions of mobile payments.

iv) To accelerate adequate access to credit for companies and micro-finance institutions affected by COVID-19, the Ministry of Finance and the Tunisian Guarantee Company (SOTUGAR) have signed an agreement implementing a new system of partial credit guarantee fund and operating principles guaranteeing financial viability and fast deployment.

By 2021, the Government will be reinforcing the identification and authentication of citizens and social program beneficiaries, expanding social coverage and efficiency, and promoting the online payment systems. Strengthening the microfinance sector remains an important focus of Government strategy to promote financial inclusion.

The Tunisian Government keeps reforming the social protection system in order to raise citizen resilience and improve inclusion. Measures will be taken in 2021, including :

i) To improve the adequacy and efficiency of cash transfers and health coverage for poor and vulnerable households:
- The Ministers of Social Affairs and of Finance will publish a joint ministerial order updating the amounts of cash transfers;
- New digital health cards for beneficiaries of assistance programs will be issued.

ii) IUC registry will be deployed and implemented in priority programs, including in the areas of social protection, taxation, education and justice.

iii) The Governor of the Central Bank of Tunisia and the Minister of Communication Technologies and Digital Transformations will sign a memorandum of understanding on financial activity supervision, including postal digital payment services.

v) To reinforce the micro-finance sector and promote its sound development, financial and supervisory authorities will take steps to align the legal and institutional framework along best practices, particularly with regard to supervisory arrangements, diversification of funding sources, etc.

Pillar 2 : Enabling private sector recovery

The Government's economic recovery strategy is based on reforming the business and public company environment to attract more private investment, improve competitiveness, strengthen the banking and finance sector and increase economic resilience. To this end, the Government implemented the following actions:

i) To improve logistics at the Radès Port, the Government adopted decisions aimed at: (a) Streamlining commercial procedures for essential supply chains considering COVID-19 pandemic (medicine, health equipment, food). b) Digitalizing specific procedures of international trade. (c) Modifying the current concession agreement between OMMP (Office of the Merchant Marine and Ports) and STAM (Tunisian Company for Stevedoring and Handling) to provide the necessary space for container operations with the final aim of implementing a profitable strategic partnership with significant impact in terms of improving port management and logistics.

ii) To mobilize private financing for electricity production and lower cost, the Ministry of Energy, Mines and Energy Transition issued an order completing Decree No. 105-2020 implementing law No. 47-2019 on improving business climate, fixing the minimum subscribed individual power of self-consumer(s), and allowing the sale of electricity generated from renewable energies.

In addition, in 2021 the Government will still be working on improving investment conditions in order to keep supporting private sector recovery as part of continued reforms of the investment climate aimed at improving competitiveness and increasing economic resilience. It will mainly include the following:

i) To improve the efficiency of Radès Port, the Government will adopt a decision leading to reduce port costs rather than maximize revenue thanks to the future concession of wharfs 6-7-8-9 as a contribution to the economic competitiveness of the country.
ii) The Ministry of Energy, Mines and Energy Transition will publish a decree establishing the contract-based framework between self-producers and STEG for the transportation of electricity and the sale of excess energy.
iii) To promote the efficiency of air transport industry, the Government will adopt a decision for a fast implementation of the first stage of the "Open Skies" regime with the European Union, which will grant third and fourth freedom rights to European and Tunisian carriers.
iv) To improve resolving bad debts, the Government approved a legislation that will authorize transactions for which a state-owned bank has accepted a debt remission based on objective defined criteria and will ease the requirements for write-off transactions in all banks.

Area 3. Improving transparency and performance in the SOE sector

In this context, the Government emphasizes improving public sector performance and transparency as a basis for strengthening public sector management, promoting citizen confidence in the institutions and increasing private sector competitiveness. The Government has taken the following measures for 2020:

i) To improve budget transparency, the following reports annexed to the annual finance law are published on the Ministry of Finance website in compliance with the new organic Finance law, approved in January 2019: (a) a report on public debt, including contingent liabilities to state companies; b) a report on state companies, including their debt.

ii) To improve state company governance (a) a Government Decree was adopted by the Government, introducing a new appointment policy for company directors based on merit, and mandating at least two independent directors; (b) The Head of Government issued a circular recalling the need to publish audited annual financial statements of stateenterprises.

iii) To reduce debts and cash flow difficulties of state companies providing main public services so that they can continue providing the services after the COVID-19 crisis, the Government adopted a mechanism to ensure timely payment of STEG, SONEDE and ONAS invoices by all public entities receiving budget transfers with complete compliance rules through sufficient budget allocations to pay bills, and the suspension of budget disbursements to any entity with overdue bills. This measure will take effect from January 1st, 2021.

Beyond these immediate measures to reinforce state company governance, the Government will accelerate far-reaching reforms in order to consolidate and improve the performance of this important sector of the economy. This is why the Government plans to work with Parliament to have a new law on state company governance adopted by the end of 2020. Among other aspects, this law will establish the principle of transparency, accountability, and the creation of a centralized entity for the management of state shareholder portfolio. In addition, the Government will restructure struggling state companies based on comprehensive restructuring plans and prioritizing the electricity, water, sanitation and transportation sectors.

Finally, to reduce energy subsidies by 2021, the Government will implement concrete measures aimed at reducing energy subsidies by prioritizing either GPL or natural gas or electricity. As far as natural gas and electricity, one of the contemplated solutions consists in establishing a transparent formula of price adjustment (on at least a quarterly basis) which reflects, among other aspects, the purchase price of natural gas, the exchange rate and inflation.

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Aware of the challenges of the new economic and social context shaken by the pandemic, the Government is engaged in furthering and accelerating the pace of appropriate structural reforms to promote better economic and social resilience and lay the foundations for a sustainable and inclusive growth. This reform effort requires greater financial support that World Bank support will help concretizing.

Mohamed Selim Azzabi
Minister of Development, Investment
and International Cooperation

ANNEX 4: PUBLIC DEBT SUSTAINABILITY ANALYSS

Tunisia's public debt has increased over the last decade, breaching the 70 percent of GDP debt burden benchmark for emerging countries since 2017. Public debt has been on an upward trajectory, with only a temporary reduction in 2019. Public debt as a share of GDP consistently rose annually from 39.2 percent in 2010 to 78.0 percent in 2018, primarily driven by exchange rate depreciation and expansionary fiscal policy. Tunisia was impacted by security shocks, a widening current account deficit and low growth during much of this period.

Tunisia's debt profile is predominantly external, in foreign currency, and long-term exposing Tunisia to currency risk albeit mitigated partially by a relatively low average interest rate. Public debt largely consists of medium and long-term tenors which reduces refinancing risk. However, as 71 percent of public debt is external which raises foreign currency risk. During 2013-18 exchange rate depreciation had either a higher or comparable impact in creating new debt as primary fiscal balance flows. The high exchange rate exposure is partly mitigated by a portfolio with a relatively low average interest rate.

Tunisia's public sector debt sustainability risks have further increased with the onset of the COVID-19 pandemic. Gross public debt declined to 72.3 percent of GDP in 2019 as a result of exchange rate appreciation, negative real interest rates and lower fiscal deficit which lowered gross financing needs to 9.5 percent of GDP. The COVID-19 crisis is expected to lead to an increase in the debt burden as GDP is estimated to contract by 4.3 percent and the resulting high cost of mitigation measures to the pandemic. The baseline assumes a growing primary surplus for the years after 2020; however, the public debt to GDP ratio will remain above the emerging market threshold of 70 percent of GDP until the end of the projection period.

Macro-fiscal and other combined stress tests highlight significant risks to the government debt trajectory through various channels (Table A4.1). The debt trajectory displays strong sensitivity to a real exchange rate shock based on which public debt would increase to almost 99 percent of GDP in 2021 and remain above 80 percent of GDP in the entire outlook period (Figure A4.1). At 15 percent of GDP, contingent liabilities from SOEs are significant in Tunisia. The realization of contingent liabilities, largely from SOEs, would signal a more substantial and persistent upward shift in the debt burden and gross financing needs of 19.3 percent in 2021 alone. A combination shock scenario illustrates the possibility of a public debt peak of 108 percent in 2021 and double-digit gross financing need as a share of GDP within the 5 year horizon.[68] The most drawn-out impact on higher gross financing needs in the projection period arises from the possibility of a "combined COVID-19" shock designed to capture the potential fallout of a protracted COVID-19 crisis. This is simulated via a semi-permanent shock on real GDP growth coupled with a primary balance shock which would require an average of 12.3 percent of GDP gross financing needs annually (Figure A4.2) through 2025.[69] Other customized shocks signal the high risks from inadequate progress on fiscal consolidation.

[68] Combined shock: Shock size and duration based on the above underlying shocks incorporating worst outcomes for each of the following shocks: (1) Primary balance shock: Minimum shock equivalent to baseline minus half of the 10-year historical standard deviation. There is an increase in interest rates of 25 basis points for every 1 percent of GDP worsening in the primary balance; (2) Real GDP growth shock: Real GDP growth is reduced by 1 standard deviation for 2 consecutive years; revenue-to-GDP ratio remains the same as in the baseline; level of non-interest expenditures is the same as in the baseline; deterioration in the primary balance leads to a higher interest rate (see above); decline in growth leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth); (3) Real interest rate shock: Interest rate increases by difference between average real interest rate level over projection and maximum real historical level,; (4) Real exchange rate shock: Maximum historical movement of the exchange rate; pass-through to inflation with default elasticity of 0.25 for emerging markets.
[69] The Combined COVID-19 shocks incorporates worst outcomes for: (1) semi-permanent real growth shock: a semi-permanent real growth shock: real GDP growth is reduced by 1 standard deviation for 2 consecutive years and then resumes to 2.5 percent as per recent historical values;

Figure A4.1: DSA Standard Shocks

Panel A: Public Debt (in percent of GDP) | **Panel B: Gross Financing Needs (in percent of GDP)**

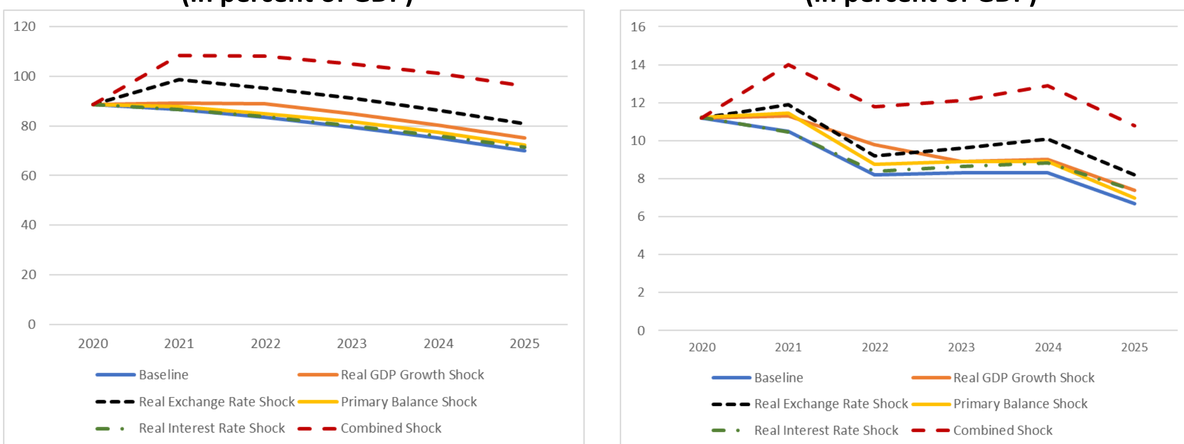
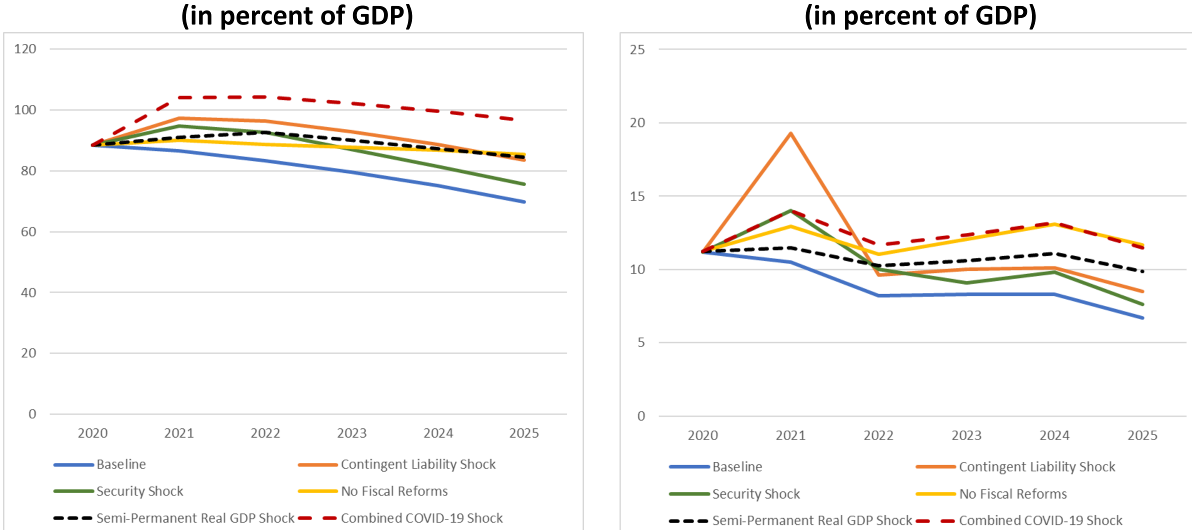


Figure A4.2: DSA Customized Shocks

Panel A: Public Debt (in percent of GDP) | **Panel B: Gross Financing Needs (in percent of GDP)**



Source: IMF DSA (April 2020) and World Bank simulation of additional shocks.

Possible mitigating factors can reduce risks. Tunisia's public debt profile is characterized by a substantial share of official (bilateral and multilateral) loans with low interest rates, long maturities and significant grant element. Moreover, Tunisia has benefitted from several Eurobond issuances guaranteed by a third-party, significantly reducing the rate of what would otherwise be market rates. Domestic debt constitutes 29 percent of the debt portfolio. As such,

revenue-to-GDP ratio remains the same as in the baseline; level of non-interest expenditures is the same as in the baseline; deterioration in primary balance lead to higher interest rates (see above); (2) Primary balance shock: assumes half of the planned fiscal consolidation is not implemented.

the domestic market presents further room for debt issuance as Tunisia further builds its domestic currency yield curve. While exchange rate depreciation is a significant risk, the limited financial account exposure and strong inventories and hedging strategies of the banking sector on the foreign exchange rates limit the risk exposure.

The debt outlook heavily relies on a sustained implementation on sound macro-fiscal policy on behalf of the government and continued securing of concessional debt. The baseline debt outlook discussed relies on a strong assumption of fiscal measures that would result in the reversal of the previous persistent and growing primary deficit. A sustained decline in gross financing needs will also require securing further concessionary debt and grants from donors and other multilateral lenders.

Table A4.1: Summary of Stress Tests

	2020	2021	2022	2023	2024	2025
Customized Shocks						
Contingent Liability Shock 1/						
Nominal Debt (in percent of GDP)	88.5	97.4	96.4	92.9	88.7	83.6
Gross Financing Need (in percent of GDP)	11.2	19.3	9.6	10	10.1	8.5
Real GDP growth (in percent)	-4.3	2.4	1	2.7	3	3.3
Inflation (in percent)	5	5.1	4	4.2	4	4
Primary Balance (in percent of GDP)	-1.2	-7.6	1.8	2.7	3.4	3.2
Effective Interest Rate (in percent)	4.4	4.4	4.9	5.2	5.2	5.3
Security shock						
Nominal Debt (in percent of GDP)	88.5	94.8	92.7	87	81.5	75.7
Gross Financing Need (in percent of GDP)	11.2	14	10	9.1	9.8	7.6
Real GDP growth (in percent)	-4.3	2.2	2.6	3.6	4	4
Inflation (in percent)	5	5.8	5.2	4.6	4.1	4
Primary Balance (in percent of GDP)	-1.2	-2	0.8	2.6	2.6	3
Effective Interest Rate (in percent)	4.4	4.3	4.4	4.7	4.8	4.9
No fiscal reforms						
Nominal Debt (in percent of GDP)	88.5	90.0	88.8	87.8	87.0	85.5
Gross Financing Need (in percent of GDP)	11.2	13.0	11.0	12.1	13.1	11.7
Real GDP growth (in percent)	-4.3	3.1	3.3	3.4	3.5	3.5
Inflation (in percent)	5.0	5.6	4.4	4.2	4.0	4.0
Primary Balance (in percent of GDP)	-1.2	-1.6	-0.8	-0.7	-0.7	-0.6
Effective Interest Rate (in percent)	4.4	4.2	4.4	4.7	4.9	5.1
Semi-permanent growth shock 2/						
Nominal Debt (in percent of GDP)	88.5	91.0	92.6	90.1	87.3	84.4
Gross Financing Need (in percent of GDP)	11.2	11.5	10.3	10.6	11.1	9.9
Real GDP growth (in percent)	-4.3	0.7	-0.7	2.5	2.5	2.5
Inflation (in percent)	5.0	4.7	3.5	4.2	3.8	3.8
Primary Balance (in percent of GDP)	-1.2	0.3	0.7	1.5	2.1	1.7
Effective Interest Rate (in percent)	4.4	4.2	4.3	4.7	4.8	4.9
Combined COVID-19 shock 3/						
Nominal Debt (in percent of GDP)	**88.5**	**104.2**	**104.4**	**102.2**	**99.7**	**96.7**
Gross Financing Need (in percent of GDP)	11.2	14.0	11.7	12.4	13.2	11.5
Real GDP growth (in percent)	-4.3	2.4	1.0	2.5	2.5	2.5
Inflation (in percent)	5.0	5.1	4.0	4.2	3.8	3.8
Primary Balance (in percent of GDP)	-1.2	-0.7	0.2	1.1	1.8	1.7
Effective Interest Rate (in percent)	4.4	4.7	4.3	4.6	4.8	4.9

Source: IMF (2020) and World Bank semi-permanent and COVID-19 shocks.

1/ The one-off 10 percent of GDP shock to contingent liabilities reflects an additional three percent of GDP in bank recapitalization costs and the realization of about 7 percent of GDP of the government's contingent liabilities from public enterprises.

2/ The semi-permanent real growth shock assumes real GDP growth is reduced by 1 standard deviation for 2 consecutive years and then resumes to 2.5 percent as per recent historical values; revenue-to-GDP ratio remains the same as in the baseline; level of non-interest expenditures is the same as in the baseline; deterioration in the primary balance leads to a higher interest rate (see above); decline in growth leads to lower inflation (0.25 percentage points per 1 percentage point decrease in GDP growth).

3/ The combined COVID-19 shock combines the semi-permanent GDP growth shock with a primary balance shock that assumes half of planned consolidation is not implemented, equally on revenues and expenditures; with associated pass through effects.

ANNEX 5: POVERTY AND SOCIAL IMPACT ANALYSIS

This poverty and social impact analysis (PSIA) is focused on the distributional impact of prior action #1 (cash transfers to respond to the COVID-19 crisis and improved targeting and coverage) and prior action #2 (improved identification of beneficiaries that can strengthen targeting accuracy and efficiency). Results of this analysis are discussed in section A. In section B, the PSIA discusses the potential distributional impact of trigger #13 (electricity, gas or LPG subsidy reduction) based on existing evidence (the trigger will be subject to an in-depth PSIA during the preparation of the second operation of this series).

A. Distributional impact of safety net strengthening (prior actions #1 and #2)

The COVID-19 is likely to have a large impact on welfare of Tunisian households absent effective mitigation measures. First, some individuals might be more vulnerable to contracting the disease because their living conditions or job makes them more susceptible to come into contact with others or to practice social distancing. Lack of adequate access to health insurance, overcrowded living condition and low access to water at home are reasons that put the Tunisian poor at a higher susceptibility to get infected or to not be able to seek healthcare in the event that they contract COVID-19. In addition, the elderly in the poorest households could be more susceptible to COVID-19 due to higher prevalence of intergenerational households among the poor. There are many sectors of the labor market that will experience an economic slowdown and those employed in these sectors are likely to experience disproportionate effects. Combining the labor shock and price shock simultaneously, simulations show an increase in poverty by 3.4 percentage points and a slight increase in inequality due to COVID-19 outbreak in Tunisia.

In response to COVID-19, an exceptional social and economic emergency plan was enacted and gradually implemented by the Government in March 2020 that specifically extended several compensatory measures to households. In this section, we simulate the impact of these social assistance measures (see Box A5.1 and prior action #1) as well as the improved beneficiary identification and targeting that can result from the reforms supported by this operation (prior action #1 and prior action #2). The simulations are based on four poverty levels: (i) national, (ii) international US$1.9 Purchasing Power Parity (PPP) per day, (iii) international US$3.2 PPP per day, and (iv) international US$5.5 PPP per day. These compensatory measures target the poorest strata of the population and the most vulnerable groups affected by the pandemic to be able to compensate them with incurred losses due to the pandemic. The analysis uses the Enquête National sur le Budget, la Consommation et le Niveau de Vie des ménages (ENBCNV 2015) collected by the Institut National de la Statistique (INS). The compensatory measures are:

Social transfer measure 1 = Cash transfer top-up of TND 50 for poor households receiving permanent cash transfer program (PNAFN)

Social transfer measure 2 = Temporary cash transfer (TND 200) for vulnerable households benefiting subsidized health card program

Social transfer measure 3 = Pension top-up (TND 100) for retirees whose monthly pension is below TND 180 (one-off mid-April)

Social transfer measure 4 = Temporary unemployment benefits (TND 200) for workers who will be affected by partial unemployment (one-off mid-May) [first 2 quintiles]

Social transfer measure 5 = Temporary cash transfer (TND 200) self-employed individuals who suffer from business income loss (one-off mid-May) [first 2 quintiles]

Social transfer measure 6 = Compensatory measure 1 + Compensatory measure 2 + Compensatory measure 3

Social transfer measure 7 = Compensatory measure 1 + Compensatory measure 2 + Compensatory measure 3 + Compensatory measure 4 + Compensatory measure 5

Box A5.1: Methodology

The COVID-19 crisis has negative impact on poverty with the risk of increasing the number of people falling below the poverty line and the degree of poverty severity of those already poor. Compensatory policies can be considered to moderate these negative effects. In this section we simulate a compensation mechanism that targets the poorest strata and the most vulnerable parts of the population and is able to compensate the incurred loss.

Social safety net (SSN) programs in Tunisia comprise non-contributory social assistance programs for poor households through unconditional cash transfers (UCT) and free health cards. Benefits are provided through the National Assistance to Needy Families Program, Program National d'Aide Aux Familles Nécessiteuses (PNAFN), managed by the Ministry of Social Affairs (MAS). Households receive cash transfers of 150 TND per month, accounting for approximately 25 percent of the poverty line used to determine eligibility, which is 585 TND (approximately US$1.25 per day).

We simulate three compensatory measures that make use of existing social protection mechanisms and their mix (1, 2, 3, and 6) and postulate either an increase in transfers only or an increase in coverage. We also simulate two compensatory measures beyond the existing mechanisms (4 and 5) to address the COVID-19 negative effects to the vulnerable employees and self-employed from the bottom 40 percent of the welfare distribution. We finally simulate the complete set of measures that include all compensatory measures via existing SP mechanisms and the temporary ones. One caveat of these measures' simulation is that it assumes effective targeting of cash transfer by selecting the poorest households.

For each simulation we add the corresponding cash transfer to the aggregated expenditure of vulnerable categories. We then calculate poverty rates based on new values and record the difference in Table 1. We also calculate the overall costs of the simulated measures (see Table 2). In order make the simulation a bit more realistic, we added 20 percent overhead (loss-coverage) to take into account the overhead costs of expansion and the costs associated with leakages and mis-targeting correction.

Despite being most expensive, compensatory measure 4 will be the most effective. As is evident from Table A5.1, implementation of this measure is associated with a poverty reduction of two percentage points (national poverty) or 2.2 percentage points of the US$5.5 PPP international one. None of the social transfer measures proposed by the government would be able to fully mitigate the projected increase in the national poverty rate change due to the crisis.

Table A5.1: Poverty change compared to baseline

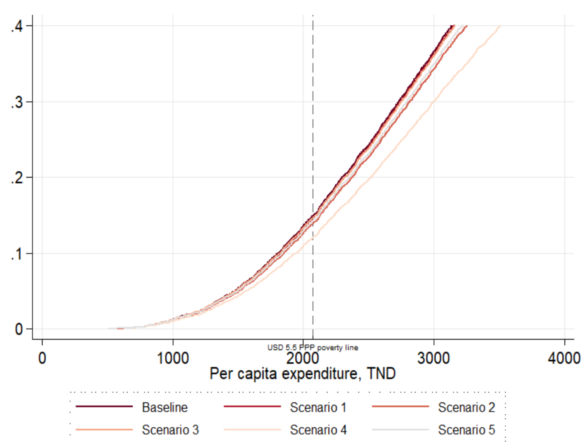
Compensatory measure #	National poverty rate change, p.p.	USD 1.9 PPP poverty rate change, p.p.	USD 3.2 PPP poverty rate change, p.p.	USD 5.5 PPP poverty rate change, p.p.
baseline poverty rate*	+3.4	to calculate	to calculate	to calculate
1	-0.2	-0.0	-0.1	-0.2
2	-0.6	-0.0	-0.1	-0.7
3	-0.2	-0.0	-0.0	-0.2
4	-2.0	-0.0	-0.4	-2.2
5	-0.5	-0.0	-0.1	-0.5
6	-1.0	-0.0	-0.2	-1.1
7	-2.7	-0.1	-0.5	-2.9

Source: Authors' calculations based on ENBCNV 2015
* Estimated increase poverty due to COVID

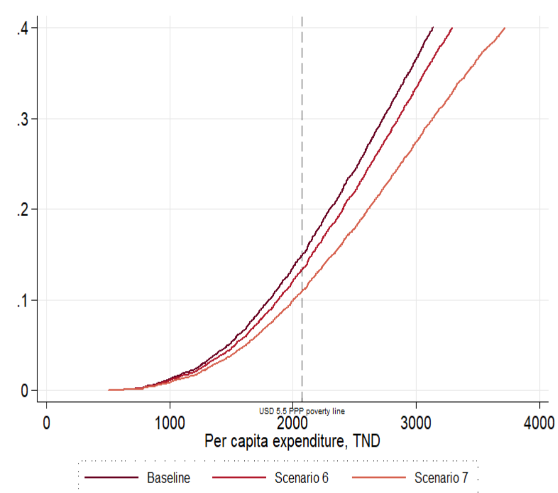
Compensatory measure 4 is expected to have the largest shift of the bottom 40 percent distribution to the right – meaning that households are getting better and are less likely to be below the poverty line. We show the distribution of household income for the distributions under different options of individual compensation measures from 1 to 5 (Figure A5.1a) and putting together compensation measures 1-3 and 1-5 (Figure A5.1b). Compensatory measure 4 has the largest impact on welfare because of its larger coverage and disbursed amount that affect the bottom 40 percent of the expenditure distribution. All measures put together (Simulation 7) has the highest impact on welfare and would help the bottom 40 percent overcome the negative effects of the COVID-19 crisis.

Figure A5.1: Impact of compensation measures on the bottom 40 percent

Panel A: compensation measures 1 to 5



Panel B: compensation measures 6 to 7



Depending on the number of measures undertaken, the program can cost between 14.3 to 523.2 million dollars per month. Table A5.2 illustrates the estimated number of beneficiaries (column 2), amount transferred to households (column 3), the overheads cost (column 4) and the total cost (column 5 in TND and column 6 in USD) associated with expanding the program to the poorest households in Tunisia under the different compensatory measures. In particular, providing temporary unemployment benefits (TND 200) for workers who will be affected by partial unemployment (one-off mid-May) will be the expensive for the government in terms of total monthly costs incurred.

Table A5.2: Compensation costs, in real March 2018 terms

Compensatory measure #	Estimated # of beneficiaries, thousand	Monthly cost, thousand TND	Administrative monthly costs, thousand TND	Total monthly cost, Thousandths	Total monthly cost, thousand USD
1	238.3	11,913	2,383	14,296	5,052
2	404.8	80,966	16,193	97,159	34,332
3	160.4	16,037	3,207	19,244	6,800
4	1,332.4	266,472	53,294	319,766	112,992
5	302.8	60,560	12,112	72,672	25,679
6	801.1	108,916	21,783	130,699	46,184
7	1,987.0	435,948	87,190	523,138	184,854

Source: Authors' calculations based on ENBCNV 2015
* TND values are in January 2020 terms

B. Preliminary evidence on the distributional impact of SOE sector reform (triggers #12 and #13)

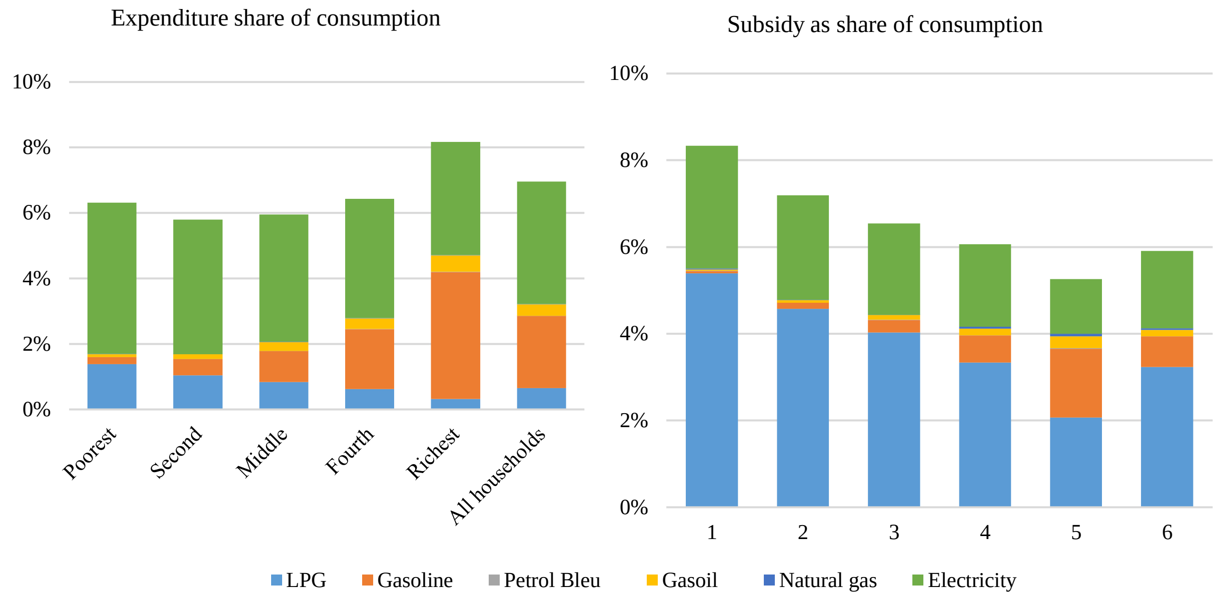
Pillar 3 includes triggers that could have significant distributional impact. One of the triggers could result in resizing of personnel in some SOEs having some poverty and equity implications Another trigger could result in removal of certain energy subsidies (LPG, electricity, and gas) with a cash transfer mechanism for eligible households. A detailed Poverty and Social Impact Analysis (PSIA) on these prior actions and associated triggers under Pillar 3 will be prepared in the future. Nevertheless, we discuss some potential impacts of these triggers on poor and vulnerable households based on existing studies.

For the first trigger, it is clear that downsizing of staff in absence of strong compensatory mechanisms has a social impact. The bigger the magnitude the stronger the impact. Generally, SOEs restructuring plans include compensation measures (including specific pension schemes) to mitigate the impact of personnel resizing measure.

A detailed PSIA will focus on the trigger on LPG, electricity and gas subsidy reduction but existing knowledge provide some useful preliminary evidence. Both the removal of certain energy subsidies like LPG, electricity and gas as well as compensation mechanism would have poverty and equity implications. The World Bank PER (2019) brings some evidences on these aspects which are summarized below.

As a share of consumption, subsidies to LPG were the largest for poor households in 2015-16 (Figure A5.2). Overall, subsidized energy products accounted for about 7 percent of household consumption in 2015-16. For poor households, the largest share is of LPG followed by electricity, and for richer households it is electricity. LPG subsidies represent slightly more than half of the subsidies received by households.

Figure A5.2: Subsidized energy products: expenditure share of consumption, and subsidy as share of consumption



Source: PER (2019)

Given the high reliance of the poor on LPG, it is not surprising that these reforms would need to be accompanied by compensation measures as proposed under Pillar 3. Uncompensated, the removal of LPG and electricity subsides would raise the poverty headcount. The World Bank PER (2019) estimates an increase in poverty headcount by 0.7 percentage points if the LPG subsidy is removed without any compensation. Similarly, a removal of electricity subsidy without any compensation would entail an increase in poverty headcount by 0.4 percentage points.

Clearly, providing compensation would also have significant social and equity implications. World Bank PER (2019) simulates five scenarios to analyze the impact of removal of LPG subsidy reform along with compensation on poverty and equity. Specifically, it highlights that a cash transfer program with improved targeting could compensate almost all poor households at minimal cost compensation. Using existing social assistance programs can have a positive impact depending on the program. For example, compensating all AMG beneficiaries would make the median poor individual better off, however, compensation through PNAFN assistance program would require about half of the reform savings but would leave most poor households worse off.

ANNEX 6: ENVIRONMENT AND POVERTY/SOCIAL ANALYSIS

Prior Actions	Significant positive or negative environment effects	Significant poverty, social or distributional effects positive or negative
Pillar 1. Strengthening resilience and inclusion		
Prior action #1: To enhance the capacity of the social protection system to respond to the COVID-19 crisis and future shocks, and improve household resilience: (a) the Borrower has expanded cash transfers as part of the immediate COVID-19 response pursuant to Law-Decrees No. 2020-3 and 2020-4, dated April 14, 2020 published in the Official Gazette No. 32, dated April 14, 2020; (b) the Borrower has approved Decree (Décret Gouvernemental) No. 2020-317, dated May 19, 2020 and published in the Official Gazette No. 45, dated May 20, 2020 setting the eligibility criteria and delivery procedures of different services under the AMEN Social Program; (c) the Minister of Social Affairs has issued Minister Order (Arrêté) dated May 19, 2020 and published in the Official Gazette No. 45, dated May 20, 2020 adopting the use of a new targeting model; and (d) the Borrower's Council of Ministers has issued a decision on May 7, 2020 to integrate additional social services in the AMEN social registry.	Positive environmental impacts are expected to the extent that cash transfers to poor households contribute to reducing their demand for biomass.	These measures have a clear pro-poor direction. Positive poverty and social impacts are expected through the targeted expansion of the social safety nets to poor and vulnerable households. In addition, at this stage, the targeting tool will be applied only to the new beneficiaries to avoid any risk of social tension. A progressive measure will be applied to exclude households significantly above the targeting threshold and replace them with poorer households
Prior action #2: To establish the legal framework for citizen digital identification and interoperability for better and more efficient service delivery (of social programs in particular), the Borrower: (a) has enacted Law-Decree No. 2020-17 dated May 12, 2020 on Unique Citizen ID ("Identifiant Unique des Citoyens" or "IUC") published in the Official Gazette No.41 dated May 12, 2020; and (b) has adopted Decree No. 2020-312 dated May 15, 2020 and published in the Official Gazette No.43, dated May 15, 2020, setting the objectives of the IUC, its content and technical specifications to define authorized user agencies and the purposes for their use, and	No known negative environmental impact	

to define the protocol and process interoperability related to the IUC.		
Prior action #3: To enable affordable and secure digital payment transactions, the Governor of the Central Bank of Tunisia has signed Circular No.2020-11 on May 15, 2020 and published on May 18, 2020, specifying the terms and conditions for offering mobile payments and the requirements for the interoperability of payment systems.	No known negative environmental impact	Neutral from a distributional point of view but with general positive effects since it facilitates access to cash transfer for poor and vulnerable households.
Prior action #4: To improve access to credit of enterprises and microfinance institutions affected by the COVID-19 crisis, the Borrower’s Minister of Finance and the Société Tunisienne de Garantie have signed an Agreement (Convention) dated 11 May 2020 as amended on May 19, 2020, that implements a new partial credit guarantee fund scheme and sets the operating principles ensuring financial sustainability and rapid deployment.	Adverse environmental impacts are not expected conditional upon the implementation of mitigation measures per current environmental legal and regulatory framework.	The measure would contribute to improving financial and economic inclusion and as such would have a positive distributional impact.
Pillar 2. Enabling private sector recovery		
Prior action #5: To improve trade and logistics performance at the Port of Radès, the Borrower has: (a) streamlined trade procedures for critical supply chains given the COVID-19 pandemic (including medicine, health equipment and food), pursuant to Joint Circulaire by Minister of Finance and Minister of Trade dated May 12, 2020; (b) digitized specific international trade-related procedures pursuant to DG Customs’ Decisions dated May 14, 2020; and (c) provided the necessary space for container operations through the separation of container and roll-on/roll-off traffic and the future expansion of the port, pursuant to Amendment No. 2 to the Concession Agreement between OMMP and STAM dated May 14, 2020.	The measure may result in the increase of the volume of transport (road and maritime) and adverse environmental effects are not expected conditional upon the implementation of mitigation measures per current environmental legal and regulatory framework. However, the current environmental and regulatory framework and institutional capacity is sufficient to ensure that necessary mitigation measures are in place.	The measure may have positive distributional impact since a better logistic and trade facilitation for essential items will help avoid sudden price increases that typically affect the poor the more significantly.

Prior action #6: To support post-COVID-19 recovery by leveraging private financing for renewable electricity generation, the Minister of Energy, Mines and Energy Transition has issued Ministerial Order ("Arrêté") dated May 28, 2020 and published in the Official Gazette No. 48 dated May 28, 2020, and Ministerial Decision dated May 27, 2020, complementing Decree No.105-2020 applying the Transversal Law (Law No.47-2019), to set the conditions for private sector special purpose vehicles that generate renewable energy to sell power to its shareholders using Société Tunisienne de l'Electricité et du Gaz (STEG) transmission and distribution network.	Positive environmental effects are expected. An improved enabling environment for investments in renewable energy will lead to the accrual of environmental benefits emanating from the reduction in emission of air pollutants and the associated decrease in health risks and the decrease in GHG emissions.	Potentially positive if the measure leads to more efficient and greener energy production through more competition and private participation.
Pillar 3. Improving transparency and performance in the SOE sector		
Prior action #7: To improve fiscal transparency, the Borrower has published on the website of the Ministry of Finance the following reports annexed to the 2020 Budget Law: (a) a report on central government debt including contingent liabilities to SOEs; (b) a report on SOE finances, including their debt; as mandated by the Borrower's Organic Budget Law No. 2019-5, dated February 13, 2019 and published in the Official Gazette No.15 dated February 19, 2019.	No negative environmental impact.	Neutral from a distributional point of view but with general positive effects.
Prior action #8: To improve the governance of SOEs, the Borrower has approved: (a) the application of merit-based appointments for boards of directors and a minimum number of independent directors in SOEs, pursuant to Decree No. 2020-314, dated May 19, 2020 and published in the Official Gazette No. 44 dated May 19, 2020; and (b) the timely publication of the SOEs' annual audited financial statements pursuant to Prime Minister's Circulaire No. 17 dated May 18, 2020.	No known negative environmental impact	The action is neutral form a distributional point of view but with general positive effects.
Prior action #9: To reduce receivables and cashflow challenges among the SOEs in core public services so that they can ensure quality services particularly during COVID-19 recovery, the Borrower's Minister of Finance has issued *Circulaire* No. 541 dated May 14, 2020 to establish a mechanism for the payment of bills to STEG, SONEDE and ONAS by relevant public entities with concrete compliance rules.	Positive environmental effects are expected. Ensure electricity and gas bill payment will lead to the accrual of environmental benefits emanating from the reduction in electricity and gas consumption and consequently in emission of air pollutants from energy plants and the decrease in GHG emissions	Neutral form a distributional point of view but with general positive effects.

ANNEX 7: JOINT POLICY MATRIX WITH DEVELOPMENT PARTNERS APPROVED BY GOT (MEASURES FOR CY 2020)

Prior actions: Measures to be achieved by mid-May 2020	deliverables	Relevant department	Measures to be taken September 2020
Pillar 1. Improve the efficiency of transport, energy and digital payment services			
AP 1.1 (Prior action #5 of the proposed DPF) To improve trade and logistics performance at the Port of Radès, the government has adopted decisions to: **i)** Streamlining business procedures for critical supply chains taking into account the COVID-19 pandemic (drugs, health equipment, food) **ii)** Digitize specific international trade-related procedures, payment of taxes and duties, and bank guarantees **iii)** Modify the current concession agreement between OMMP and STAM to provide the necessary space for container operations (existing berths 6 and 7 in addition to the future berths 8 and 9).	Joint circular from the Minister of Trade and Minister of Finance (Customs) on the establishment of a fast track for the above-mentioned products. The new digitized modules have entered into force: the export manifest, the rectification of import manifest beyond the deadlines and the detailed declaration of goods following the manifest of anticipated import Agreement amendment	Ministry of Trade and Customs Ministry of Trade and TTN Ministry of Transport	i) The finalized TOS and Smart Gate systems and all of their integrated, tested and put into service modules until the end of September 2020. ii) The completed "Single Package" platform and all of its integrated, tested and put into service modules until the end of September 2020.
AP 1.2 (Prior action #6 of the proposed DPF) To support post-COVID-19 recovery by leveraging private financing for electricity generation, the Minister of Energy, Mines and Energy Transition will adopt, in addition to Decree No. 105-2020 applying the transversal law (law No. 47-2019) the following: • An Order fixing the minimum subscribed power level to benefit from the right to buy electricity from a self-production company within the framework of decree 2020-105, • A Decision fixing the transportation tariffs for transporting the produced electricity through the national electricity network to the consumption centers and for selling the surplus to the public company. The minimum subscribed power levels, as well as the tariffs for transporting the produced energy and for selling the surplus to STEG, will be set at levels which encourage the development of self-production.	Order of the Minister of Energy fixing the minimum subscribed power level to benefit from the right to buy electricity from a self-production company, Decision of the Minister of Energy fixing the tariffs for transporting the electricity produced through the national electricity network to the consumption centers and for selling the surplus to the public company.	Ministry of Energy, Mines and Energy Transition	

Prior actions: Measures to be achieved by mid-May 2020	deliverables	Relevant department	Measures to be taken September 2020
AP 1.3 (Prior action #3 of the proposed DPF) To improve the development and adoption of digital payments, through the publication by the Governor of the Central Bank of a circular which specifies the terms and conditions for offering mobile payment and the interoperability of payment systems.	Publication of a circular by the Governor of the Central Bank specifying the terms and conditions for offering mobile payment.	Central Bank of Tunisia	
AP 1.4 In order to reduce the investment constraints, the Government will proceed with the: **i)** Publication of the decree amending the decree on the conditions and procedures for awarding concessions **ii)** Publication of the decree simplifying administrative procedures for the benefit of investors and economic enterprises.	Decree amending the decree on the conditions and procedures for awarding concessions Decree simplifying administrative procedures for the benefit of investors and economic enterprises (Once Only)	IGPP/PG	
AP 1.5 Adoption by the Council of Ministers of the National Urban Mobility Policy (PNMU) which aims to provide the Tunisian government with a strategic framework for the review of the urban mobility system in order to make it more low-carbon, more inclusive, more sustainable and safer, with the establishment of better governance, through management tools and increased coordination between all stakeholders, both at central and local level.	Minutes of the Council of Ministers	Ministry of transport	
AP 1.6 (Prior action #4 of the proposed DPF) To improve access to credit for companies affected by COVID-19 (including Micro-Finance Institutions), the Ministry of Finance and the Tunisian Guarantee Company (SOTUGAR) will sign an Agreement, which sets up a new partial credit guarantee fund covering new bank loans to companies, including MFIs (operating capital), designed on a sustainable mechanism to encourage banks, with streamlined and clear eligibility criteria for the concerned companies.	Agreement signed between the Minister of Finance and the Tunisian Guarantee Company (SOTUGAR) setting up a new partial credit guarantee fund covering new bank loans to companies, including MFIs.	Ministry of Finance and SOTUGAR	

Prior actions: Measures to be achieved by mid-May 2020	deliverables	Relevant department	Measures to be taken September 2020
Pillar 2. Strengthen governance and increase the performance of public enterprises			
AP 2.1 (Prior action #8 of the proposed DPF) To improve the governance of SOEs, a government decree, pursuant to law No. 89-9, will be published in the National Gazette and will require: **i)** the application of a merit-based appointments for boards of directors and a minimum number of independent directors in strategic SOEs; **ii)** The timely publication of the SOE's annual audited financial statements, **AP 2.1-2**. In order to improve the management autonomy and the performance of 10 public companies, a government decree placing the mentioned companies under the regime of article 22-ter of law No. 89-9 was published in the JORT (END OF MAY- AFD)	Publication of the governmental decree in the National Gazette	Presidency of the Government Ministry of Finance	Approval of law amending law No. 89-9 on Corporate Governance (End of October 2020-AFD).
AP 2.2 (Prior action #7 of the proposed DPF) To improve fiscal transparency, through the publication of the following reports annexed to the annual Budget law on the website of the Ministry of Finance as mandated by the organic budget law (approved in January 2019): a) a report on central government debt, including contingent liabilities from SOEs; b) a report on SOE finances, including their debt.	Publication on the website of the Ministry of Finance of a report on central government debt, including contingent liabilities from SOEs; Publication on the website of the Ministry of Finance of a report on SOE finances, including their debt.	Ministry of Finance	Production of the report, annexed to the 2021 finance law, on SOEs covering the 2017-2019 period, in accordance with the international best practices; incorporating a complete analysis of the debt of guaranteed or non-guaranteed SOEs; and relating to an enlarged number of SOEs. Production of audited financial statements for the 2017 and 2018 fiscal years of SOEs whose combined share in terms of turnover, total balance sheet and headcount in the portfolio of public enterprises represents more than 90%.

Prior actions: Measures to be achieved by mid-May 2020	deliverables	Relevant department	Measures to be taken September 2020
AP 2.3 (Prior action #9 of the proposed DPF) To reduce receivables and cashflow challenges among SOEs in core public services so that they can ensure uninterrupted services during COVID-19 recovery, the government will adopt a mechanism to enforce timely payment of bills to the STEG, SONEDE and ONAS by all public entities receiving budget transfers with concrete compliance rules (sufficient budgetary allocations for the payment of bills, suspension of budgetary disbursements to any entity with overdue bills) effective [January 1, 2021].	Text from the Ministry of Finance approving the Mechanism		
Pillar 3. Strengthen the performance of public administration and public finance management			
AP 3.1 Legal measures are adopted, setting the rules for encouraging the mobility of public officials from central administration to the municipalities.			
AP 3.2 Extension of the scope of the decree of April 7, 2014 setting the terms and conditions for the hierarchical control of expenditure (CHD) exercised by public expenditure controllers at the level of the ministries who implement budget management by objectives	Amended CHD decree of 2014	Ministry of the Civil Service	
Pillar 4. Promote economic and social inclusion			
AP 4.1 Strengthen the resilience of Micro-Finance Institutions (COVID-19 context) via the publication by the Microfinance supervisory authority (ACM) of the: i) Conditions for opening MFI agencies in order to ensure a minimum service; ii) Conditions for possible flexibility relating to the introduction of grace periods and the rescheduling of credits iii) Accounting rules for the Portfolio at Risk (PAR) during the crisis period.	Publication of a note setting the conditions for opening MFI agencies are published; Publication of a note setting the conditions for possible flexibility relating to the establishment of grace periods and the rescheduling of credits Publication of a note on the PAR accounting rules during the crisis period.	Ministry of Finance	

Prior actions: Measures to be achieved by mid-May 2020	deliverables	Relevant department	Measures to be taken September 2020
AP 4.2 (Prior action #1 of the proposed DPF) To enhance the capacity of the social protection system to respond to the COVID-19 crisis and future shocks and improve household resilience: (a) the Government has expanded cash transfers as part of the immediate COVID-19 response; (b) a Government decree setting the eligibility criteria and delivery process of different services under the AMEN Social program has been issued in the National Gazette; (c) the Minister of Social Affairs has issued a Ministerial Order to adopt and implement a new targeting model; (d) the Council of Ministers has issued a decision to integrate additional social services in the AMEN Social registry	Publication of a Decree setting the eligibility criteria and the process for providing the various services within the framework of the AMEN social program Publication of an order by the Minister of Social Affairs adopting and implementing a new targeting model Publication of a Joint Order by the Minister of Social Affairs and the Minister of Finance on the amounts of permanent cash transfers Publication of a Joint Order by the Minister of Social Affairs and the Minister of Finance on emergency and temporary cash transfers to vulnerable households.	Ministry of Social Affairs and Ministry of Finance	In the short term, the regulatory texts will allow the launch of the actions necessary to strengthen coordination and reduce the fragmentation of social programs. In the medium term, the CSDS will ensure the implementation of an action plan to integrate other services related to economic inclusion and the development of human capital in the national social register (social AMEN register)
AP 4.3 (Prior action #2 of the proposed DPF) To accelerate the establishment of the legal framework for citizen digital identification and interoperability for better and more efficient service delivery (of social programs in particular), the following law and decree will be published in the National Gazette: (i) A decree-low on the citizen unique ID (Identifiant Unique des citoyens, IUC); (ii) The government decree pursuant to the law on the citizen unique ID setting to set the objectives of the IUC, its content and its technical specifications; define the authorized user agencies and the purposes of their use; and define the protocol and interoperability of the processes related to the IUC.	Publication of a legislative decree on the citizen unique ID; Publication of a government decree setting the objectives of the IUC, defining the authorized user agencies and the purposes of their use; the protocol and interoperability of the processes related to the UIC.	Ministry of Local Affairs and National Authority for the Protection of Personal Data	A unified multisectoral vision / action plan setting out roles and responsibilities at national and sectoral level for the deployment of ID and digital authentication is adopted