



ENERGY

LOWER MIDDLE INCOME *

CLIMATE-SMART

TRADE-ENABLING

TUNISIA

Undersea Electrical Connection

GIF FUNDING & LEVERAGE

GIF Project Definition Grant:

\$350,000

Estimated Project Support:

\$7 million

Potential Private Investment
Mobilized:

€ 120–300 million

Tunisia's demand for power has been growing steadily for the last two decades, while its national gas production has been falling. This led the government to reconsider its energy strategy. One option is purchasing power from Europe through an interconnector cable between Tunisia and Italy's power grid. A GIF grant is supporting the development of this project.

EXPECTED PROJECT OUTCOMES

- ◆ Provide Tunisia with power at competitive rates and strengthen the security of supply
- ◆ Facilitate trade in electricity between North Africa and Europe
- ◆ Achieve climate smart objective through emissions reductions with electricity generated to high environmental standards, and
- ◆ Lay the groundwork for future integration and export of renewable solar energy to Europe
- ◆ The GIF will provide support to the government until financial close. Half of the GIF funds will be reimbursable upon reaching financial close.

TECHNICAL PARTNERS



THE WORLD BANK
IBRD • IDA | WORLD BANK GROUP

* Based on World Bank Group classification by income

BACKGROUND

Demand for electricity in Tunisia has been growing at an average of 3.6 percent annually between 2010 and 2015. Its growing peak demand—currently at 4,000 megawatts—is likely to outstrip its generation capacity soon. To meet future demand, it must either increase supply by importing electricity or developing new power sources. Currently, 85 percent of Tunisian electricity is generated from natural gas produced domestically and in Algeria with installed capacity of 5,224 megawatts. However, the structural trend of increasing reliance on hydrocarbon imports and depleting local resources have considerably eroded Tunisia's energy independence and is unsustainable.

Tunisia has several options towards reducing its power deficit, including development of solar and wind power, developing new gas fields, or importing gas or electricity. A combination of increasing renewable power generation and importing electricity from Europe could address the key investment and energy needs of the country. However, importing surplus electricity from Europe is an attractive option but will involve complex bilateral agreements between private and state-owned firms as well as the participation of international development institutions.

STEG, a state-owned enterprise, is responsible for most power generation and all electricity distribution in Tunisia. STEG is semi-autonomous and is regulated by the Ministry of Energy and Mines.

PROJECT FEATURES

The proposed project will lay a 200-kilometer long subsea power cable with a capacity of 600 megawatts between Tunisia and Sicily in Italy. The cable will supply up to 16 percent of Tunisia's power needs. In due course, it will also enable exports of power from Tunisia to Europe, especially renewable energy. It will also close the Europe-Maghreb network loop that runs through Morocco, Spain, France,

Italy, Tunisia, and Algeria, and help to create an integrated grid in the region.

Investment requirements are estimated around €600 million. Because of the large capital costs, large economic benefits, and to achieve the best value for money, the sponsors are considering a range of financing options including equity financing, grant financing from the European Union, concessional financing from development finance institutions, and financing from private banks. Given its complexity and strategic importance, it is likely that the interconnector will need public sector involvement on the part of STEG and the government of Tunisia.

The sponsors of the project are STEG, the Tunisian government, and the Terna Group, the private Italian power grid operator.

WHY GIF

The GIF provided a Project Definition Activity of about \$350,000 to support its technical partner, the World Bank's Energy Global Practice, to develop a high-level options analysis and transaction design and to identify additional work required at the project preparation stage. The GIF is now committing an additional \$7 million to fund project preparation and transaction advisory work. The support will include:

- ◆ Undertaking technical feasibility and environmental and social impact studies
- ◆ Agreeing on the commercial and regulatory structure
- ◆ Supporting the transaction design, including ownership and governance arrangements for the line and the approach to procurement
- ◆ Developing the financial model assessing the viability of the project vehicle
- ◆ Negotiating and securing the necessary financing plan for the interconnector including assessing equity from the sponsors, and liaising with private providers and other DFIs

The Global Infrastructure Facility, or GIF, is a partnership of governments, multilateral development banks and private sector financiers that facilitates private-sector investment in complex infrastructure projects in emerging economies. We serve as a platform through which governments collaborate with international financial institutions and private sector investors to design, structure and implement these complex projects.

The comprehensive project-preparation support provided by the GIF draws on the expertise of its advisory partners which includes commercial banks and institutional investors. The broad partnership ensures that well-structured and bankable infrastructure projects are brought to market in a way that meets the needs of governments and service users in a sustainable way.