**DOCUMENT OF THE EUROPEAN BANK
FOR RECONSTRUCTION AND DEVELOPMENT**

Approved by the Board of Directors on 16 December 2020[1]

TUNISIA

VISP - STEG: Stabilization Facility
STEG Restructuring Facility

[Redacted in line with the EBRD's Access to Information Policy]

[Information considered confidential has been removed from this document in accordance with the EBRD's Access to Information Policy (AIP). Such removed information is considered confidential because it falls under one of the provisions of Section III, paragraph 2 of the AIP]

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1 As per section 1.4.8 of EBRD's Directive on Access to Information (2019), the Bank shall disclose Board reports for State Sector Projects within 30 calendar days of approval of the relevant Project by the Board of Directors. Confidential information has been removed from the Board report.

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ABBREVIATIONS / CURRENCY CONVERSIONS

CCGAP	Corporate and Climate Governance Action Plan
EBITDA	Earnings Before Interest, Taxes, Depreciation and Amortisation
ERP	Enterprise Resource Planning
ESAP	Environmental and Social Action Plan
ETAP	Entreprise Tunisienne des Activités Pétrolières - Tunisian Company of Petroleum Activities
EU NIP	European Union Neighbourhood Investment Platform
GBVH	Gender-Based Violence and Harassment
GDP	Gross Domestic Product
GEF	Global Environment Facility
HR	Human Resources
HV	High Voltage
IFI	International Financial Institution
IPP	Independent Power Producer
MoE	Ministry of Industry, Energy and Mines
MV	Medium Voltage
POP	Persistent Organic Pollutants
PP&R	Procurement Policies and Rules
PR	Performance Requirement
RE	Renewable Energy
SECO	State Secretariat for Economic Affairs - Switzerland
SEMED MDA	SEMED Multi Donor Account
SOE	State Owned Enterprise
SSF	Shareholder Special Fund
STEG	Société Tunisienne de l'Electricité et du Gaz - Tunisian Company of Electricity and Gas
TC	Technical Cooperation
TCFD	Task Force for Climate-Related Financial Disclosures
TND	Tunisian Dinar
VISP	Vital Infrastructure Support Programme

CURRENCY CONVERSIONS

Country's Currency Unit	=	Tunisian Dinar (TND)
1 TND	=	0.3096 EUR as of 02.09.2020
1 TND	=	0.1120 KWD as of 02.09.2020
1 TND	=	38.46 JPY as of 02.09.2020
1 TND	=	1.3699 SAR as of 02.09.2020
1 USD	=	0.84 EUR as of 02.09.2020

WEIGHT AND MEASURES

1 Megawatt (MW)	=	1,000 kilowatts (10^3 kW)
1 Gigawatt (GW)	=	1 million kilowatts (10^6 kW)
1 Megawatt-hour (MWh)	=	1,000 kilowatt-hours (10^3 kWh)
1 Gigawatt-hour (GWh)	=	1 million kilowatt-hours (10^6 kWh)
1 kilovolt (kV)	=	1,000 volts
1 kilo ton of oil equivalent (ktoe)	=	1,000 tonnes of oil equivalent

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report, concerning an operation in favour of *Société Tunisienne de l'Electricité et du Gaz* ("**STEG**" or the "**Company**"), a public shareholding company incorporated in Tunisia, are submitted for consideration by the Board of Directors.

This operation will combine long-term green economy transition reform objectives for STEG with an immediate response to the COVID-19 crisis, by providing a comprehensive financing facility composed of two sovereign guaranteed loans to the Company of up to EUR 300 million (the "**Loans**"), namely: (i) an immediate emergency stabilization loan of EUR 100 million to STEG provided under Window 2 of the Vital Infrastructure Support Programme (VISP) of the EBRD COVID-19 Solidarity Package (the "**Stabilization Loan**") and (ii) a loan of up to EUR 200 million to refinance short and medium-term liabilities (the "**Restructuring Loan**"). The Loans are structured as separate operations because of STEG's formal constraints. However they comprise two interlinked elements of a single, coherent financing package and are presented together accordingly.

The disbursement of the Loans is linked to the implementation of a detailed reform and energy sustainability roadmap (the "**Roadmap**") agreed with the Company that aims at (i) improving the Company's corporate and climate governance, (ii) enhancing financial management of the Company, and (iii) promoting a series of inclusive initiatives both at the Company and industry levels to support equal opportunities and career development for women and young professionals in the energy sector (the Roadmap together with the Loans, the "**Project**").

The expected transition impact of the Project stems from (i) the Well-Governed quality through the improvement of STEG's corporate and climate governance; and (ii) the Inclusive quality through activities to promote access to skills and employment for young people in the energy sector.

The EU Neighbourhood Investment Platform ("**EU NIP**") will provide an investment grant of up to EUR 20 million to finance the implementation of an Enterprise Resource Planning system (ERP), a necessary step towards the corporatisation of STEG. The Project will also be supported by a comprehensive TC and investments grants package [REDACTED].

I am satisfied that the operation is consistent with the Bank's Strategy for Tunisia, the Energy Sector Strategy, the Green Economy Transition Approach, the Economic Inclusion Strategy, the Strategy for the Promotion of Gender Equality 2016-2020 and with the Agreement Establishing the Bank.

I recommend that the Board approve the proposed Loans substantially on the terms of the attached Report.

Odile Renaud-Basso

BOARD DECISION SHEET

TUNISIA - VISP - STEG: Stabilization Facility - OpID 52270 TUNISIA - STEG Restructuring Facility- OpID 51859	
Transaction / Board Decision	Board approval[2] is sought for a comprehensive financing facility consisting of two sovereign-guaranteed loans to STEG of up to EUR 300m (the "**Loans**"): (i) an up to EUR 100m emergency stabilization loan under Window 2 of the Vital Infrastructure Support Programme (VISP) (the "**Stabilization Loan**") and (ii) an up to EUR 200m refinancing loan, out of which EUR 100m will be committed upfront and the remaining EUR 100m will be committed at a later stage and made available at the discretion of the Bank (the "**Restructuring Loan**"). Approval of the commitment of the uncommitted tranche will be delegated to Management. Alongside the Loans, the EU NIP will provide an investment grant of up to EUR 20m to finance the implementation of an ERP IT system within the Company. The Republic of Tunisia will provide a sovereign guarantee for each loan.
Client	STEG is Tunisia's 100% state-owned vertically-integrated national electricity and gas utility company.
Main Elements of the Proposal	**Transition impact** *Primary Quality – Well-governed:* the Project will contribute to corporate governance improvements, better management of climate-related risks and opportunities and increased transparency via the introduction of climate governance and climate-related disclosure in line with the TCFD principles. *Secondary Quality – Inclusive*: The Project will increase access to skills and employment for youth by supporting (i) a policy dialogue with the Ministry of Vocational Training & Employment to develop four National Occupational Skills Standards and (ii) the design and implementation, in partnership with local universities, of accredited training programmes on ICT and green skills for young energy engineers, including at least 30% women. **Additionality –** STEG is facing the risk of financial instability, which may undermine its ability to continue to provide vital infrastructure services. By providing a comprehensive tailor-made financing package, the Bank is supporting STEG in addressing its [REDACTED] short and medium term challenges. [REDACTED] STEG will also be supported in reaching higher gender diversity standards. **Sound banking –** although STEG has never defaulted on its financial obligations, the Loans will benefit from a sovereign guarantee to mitigate the repayment risk of the Loans [REDACTED].
Key Risks	<u>Sovereign risk:</u> Tunisia's economy has been strongly impacted by the COVID-19 crisis (mainly tourism, automotive and textile sectors) with a recession expected to result in a 6-7% contraction in 2020. According to the IMF, the authorities will have to maintain prudent economic policies and resume fiscal consolidation once the crisis abates, to ensure the macroeconomic stability and sustainability of Tunisia's debt. <u>STEG creditworthiness:</u> STEG's financial position remains fragile and highly sensitive to commodity prices. The Loans will benefit from a sovereign guarantee. <u>Roadmap implementation:</u> The Roadmap will be annexed in the loan agreements and disbursements will be directly linked to the implementation of the Roadmap.
Strategic Fit Summary	The Project's focus on corporate reform across the dimensions of governance, climate and inclusion is consistent with the Bank's strategy for Tunisia, the Energy Sector Strategy, the Green Economy Transition Approach, the Economic Inclusion Strategy and the Strategy for the Promotion of Gender Equality 2016-2020. In addition, the Stabilisation Loan is also consistent with the Vital Infrastructure Support Programme.

[2] Article 27 of the AEB provides the basis for this decision.

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	The transaction is a comprehensive financing facility consisting of two sovereign-guaranteed loans to be extended to STEG, the state-owned utility company in Tunisia, namely: (i) an immediate [REDACTED]stabilization loan of EUR 100m provided under Window 2 of the Vital Infrastructure Support Programme (VISP) of the EBRD COVID-19 Solidarity Package (the "**Stabilization Loan**"); and (ii) a loan of up to EUR 200m (the "**Restructuring Loan**"), out of which EUR 100m will be committed upfront and the remaining EUR 100m will be committed at a later stage and made available at the sole discretion of the Bank. Approval of the commitment of the uncommitted tranche will be delegated to Management. The EU NIP will also provide an investment grant of up to EUR 20m alongside the Loans to finance the implementation of a much needed ERP IT system within the Company.
Existing Exposure	• **Direct exposure to STEG: OpID 46575 -** Sovereign-guaranteed loan of EUR 46.5m for the reinforcement of the electricity transmission network in North-Eastern Tunisia with the installation of new substations and the strengthening of existing high-voltage lines. The project is co-financed with the EIB. [REDACTED] • **Direct exposure to sovereign in Tunisia:** EUR 300m. [REDACTED]
Maturity / Exit / Repayment	- **Stabilization Loan:** door-to-door maturity of up to 8 years [REDACTED]. - **Restructuring Loan:** door-to-door maturity of up to 18 years [REDACTED].
Use of Proceeds	*Use of proceeds* - **Stabilization Loan:** (i) refinancing of short and medium-term debt, [REDACTED]. - **Restructuring Loan:** (i) refinancing of short and medium-term liabilities to ease the pressure on STEG's balance sheet and contribute to the continuing financial stability of the Company and (ii) payment of the front-end fee. - **EU NIP Investment Grant** will be used to finance the costs associated with the adoption and implementation of an Enterprise Resource Planning (ERP) system within STEG. The standard PP&R procedures will apply for the procurement of the ERP. **GEF Investment Grant** will be used to support the disposal and replacement of persistent organic pollutants ("**POPs**") in STEG's equipment (currently estimated at 400 tons). [REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	STEG: Borrower Republic of Tunisia: Guarantor
Conditions to subscription / disbursement	The conditions precedent (CPs) to signing, effectiveness, and disbursements to include, inter alia: **CPs to signing:** - STEG approves the reform Roadmap, including the CCGAP, which will be appended to the loan documentation. **CPs to effectiveness:**

	- Executed and delivered Loan Agreements and Guarantee Agreements duly authorised or ratified. [REDACTED]
Key Covenants	• Implementation of the Roadmap, including the CCGAP. • Implementation of the Environmental and Social Action Plan (ESAP)
Security / Guarantees	Two guarantee agreements (one for each Loan) will be entered into between the Bank and the Republic of Tunisia represented by the Ministry of Economy, Finance and Investment Support, to guarantee the financial obligations of the Company.
Other material agreements	None
Associated Donor Funded TC and co-investment grants/concessional finance	**A. Technical Cooperation (TC)** *Pre-signing TC:* • Skills Needs Assessment for Energy Production and Utilities in Tunisia/ operated under the Inclusion Technical Assistance Framework [REDACTED]. *Post-signing TC:* • A1: Corporate and Climate Governance Action Plan [REDACTED]. • A2: Strengthening of Health and Safety standards [REDACTED]. • A3: Development of a Bird Management plan for all transmission lines – [REDACTED]. • A4: Inventory and valuation of assets [REDACTED]. • A5: Financial and Accounting Unbundling Capacity Support [REDACTED]. • A6: Corporate and Climate Strategy and Risk Management Policy [REDACTED]. • A7: Project & TC Coordinator [REDACTED]. • A8: Increasing Access to Skills and Employment in Tunisia to support STEG and its inclusive policy engagements in the energy sector [REDATED]. • A9: POPs inventory update to support STEG in updating the inventory of Persistent Organic Pollutants (POPs) and arrange their safe disposal. Funding will be provided through the EBRD programme "Financing Advanced Environmental Technologies in the Mediterranean Sea Region for Water Systems and Clean Coasts" (EnviTeCC) [REDACTED]. *Reimbursement:* The above TCs will be non-reimbursable TCs that are required to support the transition objectives and implementation of the Project. *In-kind Contribution:* STEG will provide in-kind support in the form of office space, communication connections and similar facilities. **B. Co-investment grants / Concessional Finance (Non-TC)** An investment grant of up to EUR 20m from the EU NIP to finance the implementation of an ERP IT system within the Company. STEG will also benefit from an investment grant [REDACTED] to support the Company in safely disposing POPs containing electrical equipment, both in use and stockpiled as waste. [REDACTED]

[REDACTED]

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Key Challenges of the Tunisian electricity sector

STEG is the central player in the Tunisian electricity and gas sector. Given its responsibilities as transmission system operator, single buyer of electricity, electricity distributor and producer, its long term sustainability is critical for the Tunisian social and economic stability and green energy transition. The Company has a difficult financial position, mainly due to (i) a heavy dependency on gas imports from Algeria, (ii) increasing receivables and weakening local currency reflecting the struggling Tunisian economy, (iii) the absence of a substantial tariff reform and (iv) more recently the COVID-19 crisis. This translates into (i) a structural deficit for the Company and (ii) a liquidity issue which was seriously exacerbated by the recent COVID-19 crisis.

In an effort to address the challenges identified above, the Tunisian authorities have focused on three key areas: (i) diversifying the country's energy mix by developing a large scale private renewable energy programme to take advantage of Tunisia's outstanding solar and wind resources, (ii) removing subsidies for gas purchase, while gradually imposing cost reflective tariffs, especially for energy intensive industries such as cement companies and (iii) supporting STEG to become more efficient and commercially oriented.

The Bank's first project in the sector was a loan to STEG in 2016 to fund transmission network investments coupled with some initial reform steps. In the last three years the Bank has focused in particular on supporting Tunisia's private renewable programme, working closely with the government to develop a bankable framework for a 500 MW solar and 500 MW wind tender. The first round of this tender in summer 2019 delivered exceptionally competitive solar prices (2-4 EURc/kWh) which demonstrate the potential of the sector to improve dramatically the sustainability, security and affordability of Tunisia's energy sector..[REDACTED]

However, STEG remains the central and critical entity in the Tunisian energy sector. The company's stability and efficiency is essential both for the success of the renewable programme, since STEG is the long-term purchaser of all renewable power, and the stability of energy supply in Tunisia. Given its size and prominence, STEG is also a benchmark for all other SOEs in the country. Further structural changes are needed in order to anchor and progress the shift towards a more sustainable and efficiently run company.

In addition, the COVID-19 crisis has imposed significant additional stress on STEG through (i) a sharp drop in consumption due to the economic slowdown; and (ii) a reduction in collections, especially from sectors severely hit by the crisis such as tourism. [REDACTED]

In this context, the Bank has been approached to support STEG's ambitious long-term reform objectives in the electricity sector while providing STEG with an immediate response to the COVID-19 crisis. The proposed Project comprises a long-term financial restructuring facility (the "Restructuring Loan") and a medium-term stabilisation facility as an immediate response to the COVID-19 crisis (the "Stabilization Loan"). The two facilities are integrated parts of an ambitious programme that aims to leverage this support to achieve fundamental reforms across multiple aspects of STEG's operations.

Long-term reform objectives

[REDACTED] The refinancing will [REDACTED] result in a reduction in short-term cashflow demands, alleviating the financial pressure on the Company, in particular while the extensive reforms contemplated in this project are implemented.

A comprehensive and ambitious corporate reform programme with mitigation of climate-related risks as the overarching theme (the "Roadmap") will accompany the Project. [REDACTED] The Roadmap will aim at:

(i) enhancing STEG climate and corporate governance, through: board composition in line with the best international standards; adoption of climate governance measures; and adoption of higher E&S standards formalised in a Corporate and Climate Governance Action Plan ("CCGAP") [REDACTED];

(ii) reforming STEG's finances through improved financial forecasting and working capital management; preparation of financial statements for each business line (generation, transmission, and distribution); transition to IFRS; and improved risk management; and

(iii) promoting a series of inclusive initiatives both at the Company and industry levels to support equal opportunities and career development for young professionals in the energy sector.

Alongside the Loans and to complement the Roadmap, the EU will provide an investment grant of up to EUR 20m under the Neighbourhood Investment Platform to finance the implementation of an ERP system, a necessary step towards the corporatisation of STEG.

In addition, the reform of STEG in this manner will present a template for other Tunisian SOEs, setting a model for progressive reform of such companies throughout the economy.

Medium-term stabilisation

The Bank will also provide an up to EUR 100m stabilisation facility in line with the Vital Infrastructure Support Programme (VISP), as part of the EBRD COVID-19 Solidarity Package Phase 2, which aims to support large energy SOEs that are unable to meet the payment of their short terms liabilities as a result of the lack of revenues. This Stabilization Loan aims at partially relieving the liquidity stress caused by the COVID-19 crisis [REDACTED]. Meant as a response to the pandemic crisis, this facility will be used to [REDACTED] refinance [REDACTED] short and medium term debt [REDACTED].

STEG and Tunisia's green energy transition

The Project is consistent with the Green Energy Transition approach of the Bank as:

- it will introduce climate resilience management practices critical to better understand the impacts of climate change on the Company's future operations and plan for suitable mitigation strategies;
- STEG is the sole offtaker for renewable IPPs and as such, its creditworthiness is fundamental to scale up renewables in a country which remains heavily dependent on gas. Supporting STEG in transiting towards a profitable, more efficiently run, modern state owned enterprise will therefore ensure the development of RE IPPs in the country over the medium and long term; and
- it will support STEG updating its Persistent Organic Pollutants (POPs) inventory and removing any remaining POPs in line with the country's commitment to safely dispose of any existing POPs by 2025 as per the international Stockholm Convention[3].

The implementation of the Roadmap will be closely monitored by an external consultant.

STEG and the inclusion agenda

The investment is also consistent with the country's strategic priorities on Inclusion by supporting enhanced access to skills for young people and increasing gender equality in access

[3] http://www.pops.int/TheConvention/Overview/TextoftheConvention/tabid/2232/Default.aspx

to economic opportunities and is, therefore, in line with the objectives stated in the Economic Inclusion Strategy and the Strategy for the Promotion of Gender Equality.

Tunisia experiences one of the highest rates in SEMED of youth that are not in education, employment or training (NEET), estimated at approximately 33 percent. The economy is characterised by high youth unemployment, particularly among higher education graduates. In 2017, 29.1 percent of young Tunisians with high educational attainment were unemployed versus only 7.5 percent of individuals with low attainment (European Training Foundation, ETF Country Fiche, 2019). The World Bank identified the reduction of skills mismatches as an important driver for change toward improving equality of opportunities and increasing resilience in the country and highlighted the serious limitations of the national system in assessing skills' needs by occupation, and changes in skill demands (WB, 2020).[4] This is particularly relevant in the energy sector where there is a need to define the new skills standards and competences that are required to support the green economy transition.

For instance, while most of the currently existing jobs in the renewable sector focus on installation and maintenance services, the future job potential in the sector lies in research and development, the promotion of alternative energy sources and of mechanisms to integrate, manage and control energy systems. In these new areas, existing capacities and skills are still insufficiently defined and under-developed in Tunisia. With the Bank's support, STEG will play a major role in addressing this skills gap.

Specifically, the Bank will support STEG in working with the Ministry of Vocational Training and Employment (MFPE - Ministère de la Formation Professionnelle et de l'Emploi) to develop four National Occupational Skills Standards (NOSS). The introduction of high quality, comparable and verifiable skills standards is a critical element (and best practice model) of national skills policy. These standards allow companies to recruit based on transparent skills requirements and enable Technical and Vocational Education and Training (TVET) institutions to teach relevant skills in line with employer's needs. They thus substantially enhance the employability of young labour market entrants. The Bank can play a crucial role in this context by providing technical assistance to support private sector's engagement, ensuring that the NOSS are directly based on employer needs and involving sectoral associations and other key stakeholders.

In partnership with local technical universities, the Bank will also support STEG in designing and implementing accredited training programmes on ICT and green skills for young energy engineers. This will include at least 30 percent of women, in a study field where women represent on average about 20 percent of participants in Tunisia (Observatoire National de l'Emploi et de Qualifications, ONEQ 2016).

Strategic alignment with the Bank's mandate

This Project is in line with the Energy Sector Strategy and the Bank's Strategy for Tunisia, aiming at supporting Tunisia's competitiveness by opening markets, strengthening governance, and levelling the playing field, which would lead to increased private sector participation in a state dominated sector and a more modern and financially autonomous state owned utility company. The Project is fully consistent with the Green Economy Transition Approach. The Project is also in line with the efforts undertaken by all international organisations involved in the energy sector [REDACTED] to ensure consistency and complementarity with ongoing initiatives from the international communities. This Project also contributes to a host of UN Sustainable Development Goals (SDGs), namely: SDG 4. Quality Education, SDG 7. Affordable and Clean Energy, SDG 9. Industry, Innovation and Infrastructure, SDG 8. Decent Work and Economic Growth for all, and SDG 11. Sustainable Cities and Communities.

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[4] https://openknowledge.worldbank.org/handle/10986/34068

1.2 TRANSITION IMPACT

Primary Quality: Well-governed

Obj. No.	Objective	Details
1.1	*The company will improve its CG from a base level that is on par with the average in the country and sector.*	The Company will commit to improve its corporate and climate governance (see objectives 1.3-1.6 below). A CCGAP reflecting both specific 'traditional' corporate governance improvements as well as climate-related improvements reflective of international standards will be adopted and implemented by the Company.
1.2	*The CCGAP addresses a significant share of the corporate and climate gaps identified in the company.*	[REDACTED] Actions related to climate governance (see objectives 1.3-1.6).
1.3	*The client/sponsor is locally owned in one of EBRD's CoOs, has relatively limited sustainability management and reporting practices in place, and will commit to implementing specific improvements in Corporate Climate Governance (CCG)*	[REDACTED] The Company will commit as part of the project to implementing specific and detailed improvements in CCG, including climate-related reporting. The CCGAP has the potential to have a significant demonstration effect on other state-owned companies given that: (i) it will be one of the first CCGAPs developed by the Bank with a public utility and (ii) that STEG is one of the most important SoEs in Tunisia (number one in terms of number of employees).
1.4	*The scope of the project targets multiple cross-cutting dimensions of corporate climate governance*	[REDACTED] Part of the Loans are conditioned upon the implementation of the agreed Roadmap, including the CCGAP. The Loans are expected to be disbursed in several instalments depending on the progress in the implementation of the Roadmap.
1.5	*The client/sponsor will implement several improvements across targeted dimensions of corporate climate governance*	STEG will implement several improvements aligned with advanced practices relating to all four targeted CCG dimensions consistent with international climate-related disclosure standards. [REDACTED]

Secondary Quality: Inclusive

Obj. No.	Objective	Details
2.1	*The Project will introduce improved policy practices (e.g. market relevant skills standards)*	STEG will support the development of four National Occupational Skills Standards (NOSS) under the National Qualifications Framework (REM-REC -Référentiel de Métiers et Compétences), in line with its needs and industry requirements and in collaboration with the Ministry of Employment. [REDACTED]
2.2	*The Project will introduce a new, replicable and accredited training*	STEG will establish a partnership between its Khélidia Training and Development Centre (CFPK, Centre de Formation et de Perfectionnement de Khélidia) and the Master programmes in Engineering of two local universities. While these universities will offer their expertise in designing

	programme (to equip [REDACTED] young people with higher skill levels) in cooperation with a local vocational school or university.	modern curricula covering green and ICT skills for energy specialists, such as digital skills for remote control and monitoring of smart-grid systems, STEG/CFPK will offer students work-based learning opportunities. [REDACTED] In the next seven years, [REDACTED] young people will gain accredited market-relevant skills as a result of this partnership (including a minimum 30 percent of women). The training is also expected to continue beyond the project implementation period, equipping larger numbers of young women and men with the skills needed to enter the labour market in this sector.

1.3 ADDITIONALITY

Additionality sources	
Sources	
Financing structure	<u>VISP - STEG: Stabilization Loan</u> [REDACTED] [T]he Bank is providing unique support that will effectively bridge the financing gap due to adverse market conditions in Tunisia [REDACTED]. <u>STEG: Restructuring Loan</u> EBRD financing contributes to a restructuring package aimed at helping STEG become independent financially and foster the development of the private sector. This will be notably achieved through a long tenor [REDACTED], since long-term commercial financing is not available in Tunisia.
Risk mitigation	EBRD provides comfort to the Company by **mitigating non-financial risks** [REDACTED].
Standard setting	STEG will be supported in **reaching higher gender diversity standards**. [REDACTED]STEG will focus on promoting remote/flexible working arrangements for women and men, as well as on expanding apprenticeship schemes and facilitating the recruitment of interns across public companies. The Company will also review and improve its HR policies to address COVID-19 workforce management issues, minimising any disproportionate impact on women. In addition, the planned training initiatives will be developed with a gender lens to enhance the agency and capacity of women to access jobs and career progression within the traditionally male-dominated energy sector.

1.4 SOUND BANKING - KEY RISKS

Risks	**Effect / Probability**	**Comments**
Macro risk	High/ Medium	Tunisia experienced a weaker growth, (1.0% in 2019 compared to 2.0% in 2018 and 2017). This was mainly due to slower growth in agriculture as well as a negative growth in manufacturing and oil & gas industries. Tunisia's public debt was considered sustainable by the IMF in July 2019, but conditioned on a strong policy implementation. Over the recent months, the country's current account deficit has stabilised. The Government debt burden is expected to be maintained, while tighter monetary policy is stabilizing the currency, and fiscal policy is likely to remain prudent despite political uncertainty. In April 2020, the IMF's board approved an emergency financing of USD 745m to help Tunisia cope with COVID-19 crisis, under which the authorities committed to implement strong policy measures. [REDACTED] Tunisia announced a crisis response package

		targeted at easing the social and economic impact of the crisis, which is creating immediate financing needs of up to USD 1bn, including deferred payments, loss of tax revenues, targeted support to enterprises and the most vulnerable citizens. Mitigation: Under the recent IMF financing, the Tunisian authorities committed to maintain "prudent economic policies" and to "resume fiscal consolidation once the crisis abates to ensure macroeconomic stability and the sustainability of Tunisia's debt". In addition to the IMF financing, the European Union approved in May 2020 a financial assistance towards Tunisia of EUR 600m.
Revenue and collection rate risk	Medium /Low	The electricity and gas demand have been steady in the recent years [REDACTED]. This coupled to increasing tariffs led to a steady increase in revenues. [REDACTED] Mitigation: the Bank is coordinating with STEG [REDACTED] to introduce cash collection improvement measures [REDACTED].
Cost of combustibles risk	High /Low	Gas and electricity purchases represent the biggest cost item of STEG [REDACTED]. Mitigation: [REDACTED] [T]he Tunisian authorities have set ambitious objectives to diversify the energy mix targeting 30% of renewables by 2030.
Credit risk and debt service capacity	Medium/ High	STEG's financial situation is challenging and it will take some time to reach financial sustainability. Mitigation: STEG is an SOE that operates as a natural quasi-monopoly with sustainable revenues; and the Loans will benefit from a sovereign guarantee. [REDACTED]
Political risk	Medium/ Medium	The region is [REDACTED]currently under social pressure due to the COVID-19 virus. Mitigation: The Government has announced a set of financial and fiscal measures [REDACTED] to address the impact of the lockdown and to reduce its impact on the economy. The objective of these measures is to avoid bankruptcies or permanent cessation of business activities, to maintain employment and to financially support [REDACTED] businesses.
Foreign exchange and Interest rate risks	Low/Low	Depreciation of the local currency would result in difficulties meeting debt service [REDACTED]. An increase in interest rates would result in similar difficulties for the Company. Mitigations: The Roadmap will also focus on improving STEG's financial risk management especially vis a vis the FX, commodity and interest rate risk. [REDACTED]
Roadmap implementation Risk	Low/ Medium	The Bank has agreed a comprehensive reform roadmap, the implementation of which will depend on the willingness of STEG counterparts to undertake the necessary efforts. Mitigation: Disbursements will be directly linked to material progress in the implementation of the Roadmap.

2. MEASURING / MONITORING SUCCESS

Overall objectives of project	*Monitoring benchmarks*	*Implementation timing*
- Good financial and operational performance *(including ERP setup)* - On-time implementation of the Roadmap	- Positive net results - Positive net cash in change - Commissioning of the new ERP [REDACTED]	[REDACTED]

Primary Quality: Well-governed

Obj. No	Monitoring indicator	Details	Baseline	Target	Due date
1.1	*Operational restructuring completed*	Implementation of the new accounting model [REDACTED] by STEG	[REDACTED]	[REDACTED]	[REDACTED]
1.2	*Legal, institutional or regulatory frameworks in target areas improved*	Implementation of a Corporate Climate Governance Action Plan (CCGAP)	[REDACTED]	[REDACTED]	[REDACTED]
1.3	*Practices of the relevant stakeholder improved*	Strengthening the [REDACTED] Board	[REDACTED]	[REDACTED]	[REDACTED]
1.4	*Practices of the relevant stakeholder improved*	Expand the Audit Committee's mandate to include Risk responsibilities, including climate-related risk and opportunities	[REDACTED]	[REDACTED]	[REDACTED]
1.5	*Practices of the relevant stakeholder improved*	[REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
1.6	*Practices of the relevant stakeholder improved*	Adoption of a corporate strategy with a progressive and clear climate-related strategic direction and improvement of the corporate governance disclosure (approval of a transparency / disclosure policy)	[REDACTED]	[REDACTED]	[REDACTED]
1.7	*Practices of the relevant stakeholder improved*	New Health and Safety (HSE) and Environmental and Social (E&S) standards adopted by STEG	[REDACTED]	[REDACTED]	[REDACTED]

Secondary Quality: Inclusive

Obj. No.	Monitoring indicator	Details	Base-line	Target	Duration
2.1	*Legal, institutional or regulatory frameworks in target areas improved*	STEG will collaborate with the Ministry in charge of Employment to strengthen the National Qualifications Framework [REDACTED]	[REDACTED]	[REDACTED]	[REDACTED]
2.2	*Practices of the client on inclusive HR*	STEG will review and improve its HR policies to address the post-COVID-19 workforce management issues,	[REDACTED]	[REDACTED]	[REDACTED]

	policies and practices improved	minimising any disproportionate impact on women and other vulnerable groups.			
2.3	*Partnership between private sector and education providers established to support new learning opportunities*	STEG's Khélidia Training and Development Centre will partner with two relevant local universities and establish a dual-learning/ internship arrangement with their Master programme on ICT skills for engineers and technicians.	[REDACTED]	[REDACTED]	[REDACTED]
2.4	*Tailored training programme developed and implemented*	STEG's CFPK and the partner universities, with the support of local research and innovation centres, will introduce new training programmes on digital and green skills for energy engineers and technicians, to be accredited in collaboration with the Ministry of Employment.	[REDACTED]	[REDACTED]	[REDACTED]
2.5	*Number of youth earning an accredited certification and enhancing their skills as a result of training*	As a result, [REDACTED] young people will gain market-relevant and accredited skills. At least 30% of participants will be women.	[REDACTED]	[REDACTED]	[REDACTED]

3. KEY PARTIES

3.1 Borrower

STEG is the national electricity and gas utility created in 1962, when the Tunisian Government decided to nationalise the generation, transmission, distribution, import and export of electricity and gas. The Company supplies the national market in electric energy and fuel gas. It is a public company with financial autonomy placed under the Ministry of Industry, Energy and Mines.

STEG has a monopoly on transmission and distribution of electricity and gas. It acts as the single buyer for all electricity generated, operates the electricity network and owns c. 90% of domestic electricity generation. The transmission network is connected to Algeria and to Libya. An interconnection project between Tunisia and Italy is currently being considered.

STEG runs the operation and development of the domestic natural gas transmission and distribution network. The national gas supply is mainly sourced from Algeria through a pipeline crossing Tunisia toward Italy and also from the national oil & gas company ("ETAP") and other domestic gas producers. [REDACTED]

3.2 Guarantor

Each loan will be backed by a sovereign guarantee from the Republic of Tunisia, as represented by the Tunisian Ministry of Economy, Finance and Investment Support.

4. MARKET CONTEXT

Tunisia's power sector remains overall state dominated. It's, however, important to note the government's clear willingness to open up the generation sector to the private sector, as illustrated by the launch of a large scale RE IPP programme of 1GW, with the first round of 500MW solar having been awarded in December 2019 at very competitive tariffs ranging between EURc 2.23/kWh and EURc 3.04 / kWh. The electrification rate in the country stands at 99.8%.

Until 2004, the tariffs charged by STEG reflected production and fuel costs along with some subsidies. However, since 2004, STEG's purchase price for natural gas has significantly increased and this has not been reflected in the rates charged by STEG, resulting in the need for government support.

The government is showing signs of progress to address the fundamental imbalances in the energy sector by implementing measures to increase revenues and decrease losses. [REDACTED]

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 FINANCIAL PROJECTIONS

[REDACTED]

5.2 SENSITIVITY ANALYSIS

[REDACTED]

5.3 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Categorised B (2019 ESP). Environmental and Social due diligence (ESDD) has been undertaken in-house in line with the ESD's response to COVID-19 and consisted of a review of the COVID-19 Questionnaire as well as phone interviews with the Company's management and review of the Company's corporate procedures. A supplementary ESAP, targeting actions at the corporate level, and coming in addition to the Project ESAP agreed for the first transaction, has been agreed with the Company. As the use of proceeds is not to be directed to specific physical assets (no Capex [REDACTED]), the Project is not expected to result in additional E&S impacts nor additional physical footprint. The Company will be required to align its corporate environmental and social management systems with the Bank's Performance Requirements. STEG is an existing client of the Bank and the ongoing independent E&S monitoring of the Bank's previous project with STEG confirms that the existing ESAP is being implemented, although some delays are observed.

ESDD findings show that the STEG's corporate procedures are in line with national legislation and the Company has the capacity to implement the Bank's PRs. In line with the existing ESAP, the Company is targeting ISO14001 and ISO45001 certifications. Staff regulations are available on the intranet and cover PR2 requirements, except non-discrimination and GBVH. Several tools related to occupational health and safety (e.g. procedures for supervision and assessment of contractors, risk analysis) were developed in the context of the Bank's existing loan; their use will be extended to future STEG projects. Punctual electromagnetic field measurements are conducted by STEG before and after commissioning of cables, to verify potential impact on local community's health; such practice will need to be conducted on a more systematic basis. A community grievance mechanism is in place (via free hotline, office in Tunis, local agencies) and the grievance register is regularly updated.

The Bank will support STEG in aligning its corporate standards with good international practice through two TCs (Strengthening of Health and Safety standards and development of a bird management plan for transmission lines); both TCs have been approved by Grant Review and the Terms of Reference have been agreed with the Company.

[REDACTED] The Supplementary ESAP includes requirements to i) develop an integrated health, environmental and social management system, ii) reinforce Health and Safety supervision of contractors, iii) develop and implement a non-discriminatory, equal opportunity and sexual harassment policy and iv) require the existing contractors to update their health and safety environment plan to integrate COVID-19 safety measures for the workers. The Bank will monitor the Company's environmental and social performance in accordance with the Bank's PRs through review of reports and monitoring visits as required.

6.2 INTEGRITY

In conjunction with OCCO, updated integrity due diligence was conducted on STEG, its board members, management and other relevant parties [REDACTED]. The review identified no new material integrity concerns relating to STEG [REDACTED]. It was therefore concluded that this project does not pose an unacceptable reputational risk to the Bank. [REDACTED]

All actions required by applicable EBRD procedures relevant to the prevention of money laundering, terrorist financing and other integrity issues have been taken with respect to the project, and the project files contain the integrity checklists and other required documentation which have been properly and accurately completed to proceed with the project.

6.3 PROCUREMENT

The use of proceeds for the proposed Loans will be advanced to STEG to enable it to meet its short and medium-term obligations [REDACTED] and refinancing of short and medium-term debt. The proceeds of the Loans cannot be used for capital expenditure (to be covenanted in the loan agreements). On the basis that the Procurement Policies and Rules (PP&R) was specially designed to cover the procurement of capital expenditures, the Bank's PP&R will not be applicable for those project components.

The procurement of the ERP will however be subject to the Bank's PP&R by using open tendering procedures with ECEPP (EBRD Client e-Procurement Portal).

The TCs envisaged under the Project will be procured in full compliance with the Bank's PP&Rs.

6.4 INVESTMENT GRANTS

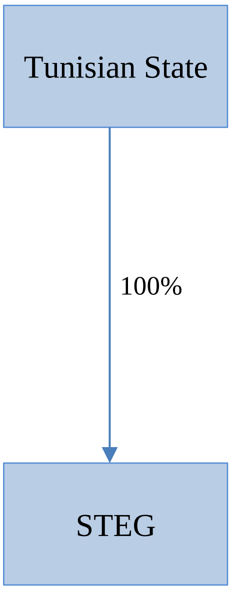
The Project will benefit from two grants [REDACTED]

1. An up to EUR 20 million investment grant provided by the EU NIP to finance the costs associated with the procurement and implementation of an ERP system within STEG. [REDACTED]The investment will make STEG more efficient, help it implement IFRS and improve the quality of service.
2. An up to USD 500k (capped at EUR 500k) investment grant by GEF to dispose and replace POPs containing equipment in use and/stockpiled [REDACTED]. The support provided to STEG will contribute to (a) accelerate the achievement of the objectives that Tunisia has signed up to when subscribing to the Stockholm convention and (b) the reinforcement of an environmentally sound management of STEG operations.

ANNEXES TO OPERATION REPORT

ANNEX 1	Shareholding Structure
ANNEX 2	Transition Impact Scoring Chart
ANNEX 3	Historical Financial Statements
ANNEX 4	Summary of the Roadmap
ANNEX 5	Summary of the Climate and Corporate Governance Action Plan (CCGAP)
ANNEX 6	Technical Assistance Overview
ANNEX 7	TIMS analysis
ANNEX 8	Project implementation

ANNEX 1 – SHAREHOLDING STRUCTURE



[REDACTED]

ANNEX 2 - TRANSITION IMPACT SCORING CHART

[REDACTED]

ANNEX 3 – HISTORICAL FINANCIAL STATEMENTS

[REDACTED]

ANNEX 4 – SUMMARY OF THE ROADMAP

[REDACTED]

ANNEX 5 – SUMMARY OF CCGAP

[REDACTED]

ANNEX 6 – TECHNICAL ASSISTANCE OVERVIEW

[REDACTED]

ANNEX 7 – TIMS ANALYSIS

[REDACTED]

ANNEX 8 – PROJECT IMPLEMENTATION

Procurement classification – *Public sovereign*

[REDACTED] The use of proceeds for the proposed Loans will be advanced to STEG to enable it to meet short and medium-term obligations [REDACTED] and refinancing of short and medium-term debt. On the basis that the Procurement Policies and Rules (PP&R) were specially designed to cover the procurement of capital expenditures, the Bank's PP&R will not be applicable for those project components.

The procurement of the ERP will however be subject to the Bank's *Procurement Policies and Rules* (PP&R). [REDACTED]

Project implementation arrangements:

The established PIU consists of designated members from the Company.

The proceeds of the Bank's loan will be used towards (i) refinancing short and medium term debt of STEG and (ii) provide liquidity support to help STEG continue to provide essential public infrastructure services, strengthen resilience and protect reforms. In addition, the project encompasses the purchase of an ERP to be financed by an EU NIP. The EBRD PP&R for public sector operations shall apply for the procurement of the ERP and ECEPP shall be used.

The TCs envisaged under the Project will be procured either by the Bank or the Company in line with the Bank's PP&R.

Procurement arrangements:

The ERP, financed under the project either from the EU grant administrated by the EBRD or Bank’s loan, will be procured following an open tendering procedure in accordance with the requirements of the Bank’s PP&R for public sector operations.

EBRD procurement team has offered the use of EBRD Client e-Procurement Platform (ECEPP). Although ECEPP is yet to allow for the use of procurement documents and platform fully translated into French, the PIU has accepted the challenge to use ECEPP for the procurement process. A training on ECEPP will be delivered to the PIU members by the Bank.

The procurement plan includes the ERP contract. It is suggested that this contract will be subject to prior review by the Bank.

All consultancy contracts will be procured in line with the requirements of the Bank’s PP&R, Section 5. The Procurement Plan is limited to one Contract only: the ERP will be procured as an Open Tender, the Goods contract method will be Two-Stage Goods or Single-Stage Goods.