DOCUMENT OF THE EUROPEAN BANK FOR RECONSTRUCTION AND DEVELOPMENT

Approved by the Board of Directors on 22 July 2026[1]

TUNISIA

TUNISIA WATER TRANSFER NETWORK

[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]

[1] As per section 1.4.8 of EBRD's Directive on Access to Information (2024), 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.

For the avoidance of any doubt, the information set out here was accurate as at the date of preparation of this document, prior to consideration and approval of the project.

TABLE OF CONTENTS

ABBREVIATIONS / CURRENCY CONVERSIONS

CAPEX	Capital Expenditures
CRDA	Commissariats Régionaux au Développement Agricole
DLHWD	Directorate of Large Hydraulics Works and Dams
E&S	Environmental and Social
ESAP	Environmental and Social Action Plan
ESDD	Environmental and Social Due Diligence
ESIA	Environmental and Social Impact Assessment
ESMP	Environmental and Social Management Plan
ESMS	Environmental & Social Management Systems
ESR	Environmental and Social Requirements
EU	European Union
EUR	Euro
GDP	Gross Domestic Product
GET	Green Economy Transition
HSSE	Health and Safety, Social and Environmental
IFI	International Financial Institution
KfW	Kreditanstalt für Wiederaufbau
km	Kilometres
KPI	Key Performance Indicators
kWh	Kilowatt-hour
LALRF	Livelihood Restoration Framework
LALRP	Land Acquisition and Livelihood Restoration Plan
LWTP	Large Water Transfer Programme
m	Meters
m^3	Cubic Meters
MAHRF	Ministry of Agriculture, Hydraulic Resources, and Fisheries
ONAS	Office National de l'Assainissement
OPIP	Operational Performance Improvement Programme
PIU	Project Implementation Unit
PV	Photovoltaics
SECADENORD	Société d'Exploitation du Canal et des Adductions des Eaux du Nord
SoE	State Owned Entity
SONEDE	Société Nationale d'Exploitation et de Distribution des Eaux
SEP	Stakeholder Engagement Plan
SSF	Shareholder Special Fund
TC	Technical Cooperation
TND	Tunisian Dinar

CURRENCY EQUIVALENTS

1 EUR = 3.4 TND (As of 16 June 2026)

PRESIDENT'S RECOMMENDATION

This recommendation and the attached Report concerning an operation in favour of the Republic of Tunisia (the "Borrower"), benefiting the Directorate for Large Hydraulics Works and Dams ("DLHWD" or the "Implementing Entity") of the Ministry of Agriculture, Hydraulic Resources, and Fisheries ("MAHRF"), are submitted for consideration by the Board of Directors.

The facility will consist of a sovereign loan to the Borrower of up to EUR 70 million to finance an 83km water transmission pipeline from the Dam of Sejnene, located in northern Tunisia, to the city of Bejaoua, near Tunis (the "Project'').

The EBRD loan is part of an overall investment package of EUR 136.6 million that is expected to include a [REDACTED]financing from the KfW, [REDACTED]the European Union ("EU"), and [REDACTED] a contribution from the Borrower. The Bank's loan will be supplemented by an investment grant of EUR 500,000 from the EBRD Shareholder Special Fund ("SSF").

The Project is expected to strengthen Tunisia's resilience to drought and increasing hydrological variability by optimising the use of existing surface water resources currently discharged into the sea, and transferring up to 109 million m^3 of water per year to one of Tunisia's most water-stressed and densely populated regions. The Project is part of Tunisia's Large Water Transfer Programme ("LWTP"), aimed at strengthening long-term water security, improving the reliability, interconnectivity, and resilience of the national bulk water transfer system. The Project is expected to benefit more than one million individuals through enhanced access to reliable water supply and improved service continuity.

The expected transition impact is derived from the **Green** quality by reducing reliance on stressed aquifers and improving the use of mobilised surface water resources resulting in a 100% GET share. The **Integrated** quality is derived from improving and extending drinking and irrigation water services to underserved areas. The Project is tagged under Economic Governance, for strengthening the operational efficiency, and service delivery in the bulk water transfer segment through improved energy efficiency practices, reporting frameworks, effective budgeting, and greater subsidy transparency. The Project is also Gender Additional, as it enhances DLHWD's institutional capacity and introduces sex disaggregated data collection and monitoring practices.

The operation will be supplemented by a post-signing technical cooperation ("TC") package covering: i) an Operational Performance Improvement Programme ("OPIP") for the benefit of Société d'Exploitation du Canal et des Adductions des Eaux du Nord ("SECADENORD"); ii) a feasibility study for the rehabilitation of the dam of Bezirek in the city of Nabeul; iii) an assessment of the scalability of floating solar PV applications on dam reservoirs, and iv) a Lender's Monitor, requiring total TC funds of EUR 1.15 million expected to be funded by the SSF.

I am satisfied that the operation is consistent with the Bank's: 2025-2029 Infrastructure Sector Strategy, 2026-2031 Country Strategy for Tunisia, Green Economy Transition 2030 Strategy, the Strategy for the Promotion of Gender Equality, the Economic Governance Strategy 2026-2030, Digital Approach 2026-2030and with the Agreement Establishing the Bank.

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

Odile Renaud-Basso

BOARD DECISION SHEET

Tunisia – Tunisia Water Transfer Network	
Transaction / Board Decision	Board approval[2] is sought for a sovereign loan of up to EUR 70 million in favour of the Republic of Tunisia to co-finance a water transfer pipeline from the Dam of Sejnene to the city of Bejaoua alongside KfW, the Borrower and the EU. Board approval is also sought for a EUR 0.5 million co-investment grant to finance a pilot floating photovoltaics project on Sidi El Barak dam reservoir in the north of Tunisia, and up to EUR 1.15 million in technical cooperation grant from EBRD SSF.
Client	The Borrower is the Republic of Tunisia, represented by the Ministry of Economy and Planning. The Project will be implemented by the DLHWD within the Ministry of Agriculture, Hydraulic Resources, and Fisheries ("MAHRF").
Main Elements of the Proposal	**Transition impact** **Primary Quality – Green**: The Project supports climate adaptation objectives by reducing reliance on stressed aquifers and improving the use of mobilised surface water resources by transferring 109 million m^3 from northern Tunisia towards water-stressed areas in the centre of Tunisia. **Secondary Quality – Integrated**: The Project will improve and extend the provision of drinking and irrigation water with the aim to achieve 100% demand coverage. **Additionality** –**Financing structure:** The EBRD loan closes a funding gap and offers sovereign financing that is not available from commercial sources on proportional terms and conditions for similar projects. **Gender SMART**: The Project, through the TC package, enables the collection and monitoring of sex-disaggregated indicators, providing a baseline for further considerations of gender and inclusion aspects in future projects undertaken by DLHWD. **Sector and institutional change**: EBRD's support is designed to strengthen operational efficiency, performance monitoring in the bulk water transfer sector through an OPIP implemented with SECADENORD, the Project's asset operator. **Sound banking** – The Project is consistent with the Bank's sound banking principles given the acceptable sovereign risk profile.
Key Risks	***Sovereign risk:*** Tunisia remains exposed to macroeconomic and fiscal risks, including currency volatility, and inflation. *Mitigants*: Tunisia's improving public finances and external financing profile, reflected in its sovereign ratings (Moody's Caa1/Stable, Fitch B-/Stable). ***Implementation delay risk:*** The Project involves extensive civil works, technical procurement, and coordination with co-financiers, creating potential implementation and delay risks. *Mitigants*: strong institutional implementation capacity, dedicated implementation support, and close coordination among financiers. ***Cost over-run risk:*** Potential cost escalation may result from input price volatility and inflation during the procurement phase. *Mitigants*: inclusion of a 10% contingency into the financing plan, market tested costs assumptions, and dedicated implementation support.
Strategic Fit Summary	Bank's 2025-2029 Infrastructure Sector Strategy, the Bank's 2026-2031 Country Strategy for Tunisia, the Bank's Green Economy Transition 2030 Strategy, the Strategy for the Promotion of Gender Equality, the Economic Governance Strategy 2026-2030, the EBRD Digital Approach 2026-2030.

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

ADDITIONAL SUMMARY TERMS FACTSHEET

EBRD Transaction	A sovereign loan to the Borrower of up to EUR 70 million to co-finance alongside KfW, the Borrower and the EU the construction of an 83 km water transfer pipeline from the Dam of Sejnene to the city of Bejaoua. The Bank's loan will be supplemented by an investment grant of EUR 0.5 million from the SSF to fund a pilot floating PV installation on the dam reservoir of Sidi El Barrak.
Mutual Reliance	No. EBRD at present has no mutual reliance agreement with KfW.
Existing Exposure	Tunisian sovereign portfolio of EUR 930 million[REDACTED]
Maturity / Exit /Repayment	18 years maturity[REDACTED].
Potential AMI eligible financing	Not applicable.
Use of Proceeds - Description	The proceeds from EBRD loan will be used to finance the procurement, installation, and associated civil works. The investment grant will fund the pilot floating solar PV project in the Sidi El Barrak dam reservoir.
Investment Plan	[REDACTED]
Financing Plan	[REDACTED]
Key Parties Involved	Borrower: Republic of Tunisia Implementing Entity: DLHWD Co-financier: KfW Investment grants providers: EU and EBRD SSF
Conditions to subscription / disbursement	[REDACTED]
Key Covenants	[REDACTED]
Security / Guarantees	Not applicable.
Other material agreements	Project Implementation Agreement between EBRD and KfW. Financing Agreement between the Borrower and KfW. EU investment grant agreement (mobilised by KFW). EBRD SSF co-investment grant agreement. TC grant agreements.
Associated Donor Funded TC and Blended Concessional Finance	**A. Technical cooperation (proposed to be funded from SSF):** ***[REDACTED]Post-signing TCs:*** **TC 4**: **Lender's monitor**, EUR 200,000. **TC 5**: **Feasibility study for the rehabilitation of the dam of Bezirek**, EUR 600,000. **TC 6**: **Assessment of the scalability of the pilot floating PV project**, EUR 150,000. **TC 7**: **OPIP for SECADENORD**, EUR 200,000. **B. Blended concessional finance:** The Bank's loan will be supplemented by an investment grant of EUR 500,000 from the SSF.
[REDACTED]	

INVESTMENT PROPOSAL SUMMARY

1. STRATEGIC FIT AND KEY ISSUES

1.1 STRATEGIC CONTEXT

Tunisia is amongst the most water-scarce countries in the region, with per-capita water availability projected to decline to c. 387 m³/year by 2050, significantly below the water poverty threshold of 420 m³/year per capita. Water resources are unevenly distributed geographically, with surface water resources concentrated in the north, while major population and economic centres in central and coastal regions face chronic deficits. Climate change, prolonged drought episodes, and continued groundwater over-abstraction are further exacerbating water stress across the country.

In response, the Government of Tunisia adopted the "Water 2050" strategy in 2019, supported by KfW and the African Development Bank, setting the sector's long-term framework to improve water security, climate resilience, and sustainable resource management. The strategy prioritises diversification of water resources, optimisation of inter-regional transfers, desalination, treated wastewater reuse, and progressive governance and sector reform measures.

Within this framework, the transfer of surplus water from northern Tunisia towards the water-stressed central, coastal and inland regions has been identified as a national priority. Significant volumes of surface water continue to be discharged into the sea during wet periods, while Greater Tunis, the Sahel, and inland regions remain increasingly exposed to water scarcity and groundwater depletion. Against this backdrop, the Project forms part of the broader LWTP, which aims to strengthen Tunisia's strategic bulk water transfer infrastructure. The other phases of the LWTP entail the rehabilitation of existing infrastructure, increase of the upstream supply, and additional transfer networks. The Project entails the construction of the fourth transfer pipeline and associated infrastructure, to increase the capacity of the three pipelines already installed.

The Project supports conveyance infrastructure linking northern water resources to Greater Tunis, which includes approximately 83 km of transmission infrastructure and is expected to transfer up to 109 million m^3 per year of surface water to Greater Tunis and surrounding water-stressed areas, contributing to improved security of supply and demand coverage. The Project is expected to improve resilience to drought and hydrological variability, reduce pressure on over-exploited aquifers, and enable more efficient use of existing surface water resources otherwise discharged into the sea. Therefore, the Project represents an important climate adaptation and water security investment for Tunisia.

Beyond the core water transfer infrastructure, the Bank is also supporting complementary initiatives aimed at strengthening the water-energy nexus and improving sector operational efficiency and governance. In this context, EBRD's investment and TC support will finance a pilot floating PV installation to assess the potential for wider deployment on one of the biggest dam reservoirs in the country. The pilot is expected to demonstrate synergies between water management and renewable energy use through reduced evaporation losses and solar-powered pumping operations. It will be conceived and procured in line with European and international standards and best practices. This includes relevant cybersecurity and supply chain security requirements to ensure this innovative pilot project will set the ground for a digitally resilient renewable energy infrastructure. [REDACTED]. The Project supports the Economic Governance Strategy by assisting SECADENORD in strengthening

operational efficiency and institutional capacity through enhanced energy efficiency practices, operational performance monitoring, and KPI-based management systems, reinforcing its role as Tunisia's strategic bulk water operator. [REDACTED]

The proposed investment is in line with the Bank's Infrastructure Sector Strategy, the 2026-2031 Country Strategy for Tunisia, the Green Economy Transition 2030 Strategy, the Strategy for the Promotion of Gender Equality, Economic Governance Strategy 2026-2030, the Digital Approach 2026-2030 and the Agreement Establishing the Bank. The Project is also aligned with several United Nations Sustainable Development Goals, including SDG 6 (Clean Water and Sanitation), SDG 7 (Affordable and Clean Energy), SDG 9 (Industry, Innovation and Infrastructure), SDG 11 (Sustainable Cities and Communities), and SDG 13 (Climate Action).

1.2 TRANSITION IMPACT

Primary Quality: Green

No.	Objective	Details
1.1	The percentage of EBRD use of proceeds that supports a green economy transition and therefore qualifies as GET finance exceeds 50%.	The Project's GET share is 100%. The Project supports climate adaptation objectives by reducing reliance on stressed aquifers and improving the use of mobilised surface water resources.
1.2	This project involves a good policy engagement, which is new and aims to deliver institutional reform and lead to structural changes across sectors/markets.	EBRD's support is designed to strengthen operational efficiency, accountability, and performance monitoring in the bulk water transfer sector through an OPIP implemented with SECADENORD. The TC assignment will support the company in conducting an energy audit and establishing a KPI-based reporting framework to improve budget planning, investment prioritisation, and subsidy transparency.
1.3	The project has an excellent climate resilience benefit-to-cost ratio which exceeds two.	Given the high risk of water stress and drought in Tunisia, the significant increase in freshwater availability provided by the Project leads to a Climate Resilience Outcome ratio exceeding 10.

Secondary Quality: Integrated

No.	Objective	Details
2.1	Provision of new infrastructure between or within regions that are currently inadequately integrated.	The Project introduces new infrastructure that will enable the DLHWD to expand coverage and fully meet drinking water demand, increasing service levels from 91.1% to 100% upon completion. It also ensures the system is equipped to handle future growth in demand while enhancing resilience to water scarcity.

Delivery risks: Project implementation and completion risks, such as construction delays, cost overruns, or technical performance issues, could ultimately impact the overall Project timeline and, consequently, performance against expected transition impact. Mitigating factors include: (i) DLHWD's solid track record in implementing similar projects with other International Finance Institutions ("IFI"), including KfW; (ii) the appointment of PIU and construction supervision services consultants, and (iii)

the contingencies included in the Project's sizing to cover potential cost overruns, which were verified by an independent reputable technical consultant.

Digital Approach: The Project is aligned with the Adaptation area of intervention outlined in the EBRD Digital Approach 2026-2030, as it will support the development and deployment of a pilot solar PV plant in alignment with best international and European cybersecurity and supply chain security standards.

1.3 ADDITIONALITY

Identified triggers	Description
No triggers identified	Not applicable.

Additionality sources	Description of additionality sources
Financing Structure - EBRD offers financing that is not available in the market from commercial sources on reasonable terms and conditions, e.g. a longer grace period. Such financing is necessary to structure the project.	The maturities required for such long-term financing are currently unavailable from commercial banks and infrastructure financing is dominated by loans from IFIs. Additionally, other IFIs are supporting the Republic of Tunisia on multiple projects, which limits their overall exposure capacity. The proposed loan will have a tenor of 18 years[REDACTED]. Longer maturities are necessary for substantial infrastructure investments to align with their inherent long-term nature of the assets.
Financing Structure - EBRD offers a tenor, which is longer than available to the client in the market on reasonable terms and conditions.	
Financing Structure - Public sector: EBRD investment is needed to close the funding gap. At the same time, EBRD does not crowd out other sources, such as from IFIs, government, commercial banks and/or complements them.	EBRD's investment is essential to closing the financing gap for the Project, enabling timely implementation. The Bank's contribution complements funding from other partners, including the EU and KfW without crowding out public or commercial sources.
Sector and institutional change: EBRD's involvement in a project is considered additional when it is designed to enhance practices at the sector or country level	EBRD's support is designed to strengthen operational efficiency, accountability, and performance monitoring in the bulk water transfer sector through an OPIP implemented with SECADENORD. The TC assignment will support the company to reach improved financial sustainability by reviewing its reporting, budgeting, and investment planning processes[REDACTED]. By enhancing performance monitoring and operational planning, the OPIP will contribute to SECADENORD's financial sustainability and institutional resilience, while laying the groundwork for future reforms such as Public Service Contracts.

Standard-setting - Helping projects and clients achieve higher standards.	The Project, through the TC assignment for the feasibility study of the rehabilitation of the Bezirek dam in Nabeul, will incorporate an economic inclusion and gender analysis of the Project. This will include an assessment of the potential impacts of the rehabilitation on agricultural productivity, water use efficiency, farmers' incomes, and local employment opportunities. The Project will also support the procurement and deployment of a pilot floating PV plant in full alignment with international and European cybersecurity and supply chain security standards.

1.4 SOUND BANKING - KEY RISKS

Risks	Probability / Effect	Comments
Project-related risks		
Implementation delay risk	Medium / High	The Project involves extensive civil works, technical procurement and coordination with another IFI. These factors present potential risks of delay or issues during implementation. **Mitigants**: The Project is a strategic priority for the Borrower and benefits from strong coordination among the financiers. The DLHWD is also well positioned to manage project implementation, leveraging a strong track record in executing complex water infrastructure projects in Tunisia in cooperation with various IFIs, and with KfW in particular, including the construction of the Bou Heurtma Dam completed in 2024, the capacity expansion of the Fondouk Jdid pumping station in 2023, the rehabilitation of the Laaroussia Dam finalised in 2026, as well as the ongoing construction of the Raghai Dam and the modernisation of the Medjerda Canal. In addition, KfW is expected to secure a [REDACTD]grant envelope from the EU to support the Project's PIU. The grant will finance the recruitment of an international consultant to provide comprehensive procurement, implementation, and supervision support, ensuring timely procurement, effective project oversight, and rigorous quality control throughout project delivery.
Cost over-run risk	Medium /Medium	The Project entails an estimated procurement period of 18 months, which exposes it to potential cost escalation due to material price volatility and contractor pricing risks. **Mitigants**: The financing plan has been established considering current market prices adjusted to future inflation and including 10% in contingencies, validated by external technical due diligence. The PIU will be supported by international consultants, which is expected to ensure reduced procurement delay and therefore limited exposure to price volatility.
Downstream network risk	Low / Medium	The increase in transfer capacity achieved through the Project will remain subject to addressing the inefficiencies of the remaining infrastructure (broken pipes, decayed infrastructure, etc). **Mitigant**: The Borrower has already included a set of rehabilitation non-regret measures in the initial Project study as a pre-requisite to allow the

		network to operate at nominal transfer capacity. These measures have already been tendered and are expected to be concluded prior to the commencement of the Project works.
External risks		
Sovereign risk (i.e. Fiscal / Macroeconomic Risk)	Medium / High	The Project implementation is subject to macroeconomic and fiscal shocks (such as currency volatility, inflationary pressures, or political instability) that could affect the Government of Tunisia's ability to service debt or effectively finance its contribution under the financing plan. **Mitigants**: Tunisia holds sovereign credit ratings Caa1/Stable by Moody's (3 Sep 2025) and B- by Fitch (12 Sep 2025) thanks to enhanced public finances as well as improving external financing profile. The Borrower also has a strong repayment record with EBRD and external creditors.
FX risk	Low / Medium	The loan is denominated in EUR with most of the expenditures expected to be incurred in Tunisian Dinar, exposing it to exchange rate fluctuations. **Mitigants**: Tunisia maintains solid reserves as of March 2026 (EUR 8.6 billion) covering over 100 days of imports which has also proven resilient despite absence of market financing since 2021. Rating agencies also preview broadly stable exchange rate in the medium term driven by tight FX market management and regulation and resilient reserves.

2. MEASURING / MONITORING SUCCESS

Transition Impact Monitoring Indicators
Primary Quality: Green

Obj. No.	Monitoring indicator	Details	Baseline	Target	[REDACTED]
1.1	Recommended policy or strategy or regulatory framework/ standard agreed by relevant stakeholder(s).	The Project is expected to strengthen SECADENORD's operational efficiency and performance of the bulk water transfer system through enhanced hydraulic management, performance monitoring, and data-driven decision-making. [REDACTED]This indicator is part of economic governance	No	Yes	[REDACTED]

		work and will be tagged accordingly.			
1.2	Water saved (m3/year)	Improved water availability through additional transfer capacity.	0	109,000,000	[REDACTED]

Secondary Quality: Integrated

Obj. No.	Monitoring indicator	Details	Baseline	Target	[REDACTED]
2.1	Improved quality of infrastructure within regions.	Implementation of the 83 Km of the water transfer network.	No	Yes	[REDACTED]
2.2	Expanded access of infrastructure across regions.	Improved demand coverage of water in the Greater Tunis Area from 91.1% to 100%.	No	Yes	[REDACTED]
2.3	Number of individuals (local population) with improved access to water services (incl. improved irrigation)	Number of individuals benefiting from improved access to water directly or indirectly as a result of the Project.	0	1,103,600	[REDACTED]

Additional Indicators

Indicator type	Monitoring indicator	Details	Baseline	Target	[REDACTED]
Gender SMART	Practices of the relevant stakeholder improved (data collection, reporting)	DLHWD will commit to integrating gender and economic inclusion analysis into the feasibility study for the rehabilitation of the dam, and based on the baseline and data analysed, establishing the collection, monitoring, and reporting of at least four sex-disaggregated indicators in line with World Bank's Toolkit for Mainstreaming Gender in Water Operations.	No	Yes	[REDACTED]

3. KEY PARTIES

3.1 BORROWER

The Borrower is the Republic of Tunisia, represented by the Ministry of Economy and Planning. The Republic of Tunisia is rated Caa1/Stable by Moody's (3 Sep 2025) and B- by Fitch (12 Sep 2025), and is an existing client of the Bank both as a direct borrower and a guarantor of several projects in favour of Tunisian SoEs.

3.2 IMPLEMENTING ENTITY

The DLHWD specialises in engineering, and construction works within the water sector in Tunisia, including the construction and rehabilitation of dams and national scale water transfer networks. The DLHWD is also in charge of providing expertise with regards to optimizing the overall water supply and executing the necessary infrastructure projects accordingly. The DLHWD has extensive experience in collaborating with IFIs and MDBs, notably with KfW, through which it has established a solid track record in project implementation. The Project will build on this experience by adopting the same implementation arrangements used in previous KfW-financed operations.

4. MARKET CONTEXT

4.1 INSTITUTIONAL AND REGULATORY SETUP

The water sector in Tunisia operates through a chain of specialised public entities under the authority of the MAHRF, which is responsible for sector policy and implementation of the "Water 2050" strategy.

Within MAHRF, the DLHWD as the technical owner and project authority for major hydraulic infrastructure, including dams and strategic water transfer systems.

SECADENORD is the public operator responsible for operating and maintaining the Country's bulk water transfer infrastructure. It captures and conveys surface water from northern reservoirs through the North–Centre corridor to downstream institutional off-takers, primarily Société Nationale d'Exploitation et de Distribution des Eaux ("SONEDE") to supply drinking, and the regional Commissariats Régionaux au Développement Agricole ("CRDAs") for irrigation purposes. SECADENORD operates exclusively at the bulk transmission level and does not serve end-customers directly.

SONEDE is the national drinking water utility, responsible for potable water treatment, distribution, metering, billing, and customer management. The utility supplies approximately 12 million consumers nationwide through an integrated distribution network, and under a nationally uniform progressive block tariff system.

At the agricultural level, the CRDAs manage and distribute irrigation water across 24 governorates, allocating bulk supply from SECADENORD and local dams to irrigated perimeters covering some 450,000 hectares. At the farm level, tertiary distribution is often managed by Groupements de Développement Agricole, non-profit farmer associations that collect irrigation fees and operate local networks.

The Office National de l'Assainissement ("ONAS") is the national sanitation utility, operates under the Ministry of Environment and is responsible for wastewater collection, treatment, and the management of treated effluent reuse.

4.2 ECONOMICS OF THE WATER SECTOR IN TUNISIA

The Tunisian water sector operates under a nationally uniform tariff framework aimed at balancing affordability, social equity and cost recovery objectives. At the wholesale level, SECADENORD charges bulk transmission tariffs designed to recover operation and maintenance costs, while energy costs associated with strategic water transfers continue to be borne by the State. At the retail level, SONEDE applies a progressive tariff structure aimed at preserving affordable access to water for low-consumption households while promoting more efficient water use. Water tariffs remain nationally uniform despite regional differences in production costs and water scarcity conditions.

Since 2021, bulk transmission tariffs have been subject to gradual adjustments. However, current tariff levels remain insufficient to fully address the sector's investment and financing needs identified under the "Water 2050" strategy. The strategy envisages broader tariff reform measures, including the potential establishment of a dedicated national water regulator to support more independent tariff setting and improve the sector's long-term financial sustainability.

[REDACTED]

5. FINANCIAL / ECONOMIC ANALYSIS

5.1 SOVEREIGN CREDIT ANALYSIS

While the country's macroeconomic environment remains fragile, recent improvements in external resilience and fiscal management have moderately strengthened its credit profile. In September 2025, Fitch upgraded Tunisia's sovereign rating by one notch to B- with a stable outlook, citing improved external accounts resilience. This followed an upgrade by Moody's earlier in the year to Caa1/Stable.

Economic growth recovered in 2025 following subdued performance in the preceding year. Real Gross Domestic Product ("GDP") grew by 2.5% year-on-year in 2025, up from 1.6% in 2024, supported by continued recovery in agriculture and expansion in selected industrial and service sectors. Inflation also declined, averaging 5.4% in 2025, down from 7.0% in 2024. However, disinflation slowed in early 2026, with inflation averaging 4.9% from January - March 2026, with price pressures remaining sensitive to higher food and energy costs amid heightened regional geopolitical tensions.

Public finances remain constrained despite some improvements in fiscal performance. The fiscal deficit is expected to narrow to 5.6% of GDP in 2025, down from 6.4% in 2024 and 7.6% in 2023, supported by better revenue mobilisation and lower basic goods subsidies. At the same time, the government is targeting a higher deficit of 6.0% of GDP in 2026, driven by increases in unallocated expenditures, the wage bill, and public investment. Public debt stood at 84.9% of GDP at year-end 2024 and is projected to decline to 80.5% in 2025, with a shift in composition towards domestic debt.

The external position improved but remains vulnerable. The current account deficit widened to 2.5% of GDP in 2025, compared with 1.6% in the preceding year, reflecting a larger trade deficit despite a fall in the energy deficit and recovery in phosphates exports. Higher tourism and remittance receipts continue to support the external position. International reserves stood at USD 8.4 billion in March 2026, broadly stable compared with year-end 2025 and equivalent to 3.5 months of imports.

5.2 ECONOMIC ANALYSIS:

The objective of the Economic Analysis is to evaluate the broader socio-economic benefits of the Project, independent of financing and taxation, using cost-benefit analysis.

The Project consists of a social infrastructure with the main goal of satisfying water demand in bulk. As such an economic evaluation of the Project has been conducted by an independent consultant[REDACTED].

The economic analysis demonstrates strong viability.[REDACTED].

The economic merits are mainly driven by health improvements, willingness to pay for better water services, resource cost savings, environmental impacts, employment generation, and agricultural development. Health benefits are mainly expected in rural areas where improved access to safe and reliable drinking water will reduce waterborne diseases, leading to avoided medical costs and fewer lost work or school days. In urban areas, the Project increases water supply reliability and reduces service interruptions, generating willingness-to-pay benefits. Resource cost savings arise from reduced reliance on private wells, time savings in water collection (particularly for women), improved pumping efficiency, and the recovery of freshwater that would otherwise be lost to the sea. Environmental impacts include both additional emissions from pumping and reductions due to energy efficiency and decreased well use. The Project also generates employment benefits through direct operational jobs and increased agricultural labour demand, while additional irrigation water supports higher agricultural production and livestock capacity, creating further economic value.

5.3 SENSITIVITY ANALYSIS

[REDACTED]

5.4 PROJECTED PROFITABILITY FOR THE BANK

[REDACTED]

6. OTHER KEY CONSIDERATIONS

6.1 ENVIRONMENT

Category B (2024 ESP). The construction of an 83 km additional pipe alongside an existing water transfer scheme dedicated to drinking water and irrigation is associated with impacts that can be readily identified and managed through appropriate environmental and social management plans. Environmental and Social Due Diligence ("ESDD") was carried out by a third party and consisted of a review of the Environmental and Social Impact Assessment ("ESIA"), Land Acquisition and Livelihood Restoration Framework ("LALRF") and Stakeholder Engagement Plan ("SEP") developed prior to the Bank's involvement and under the supervision of KfW, as well as a site visit by the Bank's Environmental and Social ("E&S") representative. The Project is not subject to an Environmental Impact Assessment under Tunisian legislation. Cumulative impacts from the existing pipes are low.

ESDD confirmed that the Implementing Entity has the capacity to structure the projects according to the EBRD Environmental and Social Requirements ("ESRs"). The Implementing Entity will establish a Project Implementation Unit for the Project including a Health and Safety, Social and Environmental ("HSSE") manager responsible for implementing E&S Management Systems ("ESMS") and developing HSSE and labour monitoring frameworks. An Environmental and Social Management Plan ("ESMP") will be developed with the support of a consultant, to be included in the tender documentation of the contractors and submitted to the environmental authority as per national legal requirements. The contractors will be required to develop labour management procedures to EBRD ESR2/World Bank EES2 standards, inclusive of

adequate provisions to manage any risks associated with core suppliers of the Project. A worker grievance mechanism will be developed and monitored by the Implementing Entity. Occupational and Community Health & Safety Management Plans will be developed by the contractors as per the Environmental and Social Action Plan ("ESAP"), inclusive of traffic management and emergency response plans, including training of relevant workers. HSSE management systems will be developed for the operational phase of the Project before completion of construction.

The Project has sought to minimise displacement impacts through its design and routing and will largely be implemented within a 15m wide corridor already in the public domain and parallel to existing water transfer infrastructure, resulting mainly in economic displacement from agricultural land. Private land and residential areas will be avoided to the extent possible but cannot be excluded. Building on the existing LALRF, a Land Acquisition and Livelihood Restoration Plan ("LALRP") will be prepared in line with EBRD ESR 5/World Bank EES 5 standards and implemented before land-related impacts occur. A full census and socio-economic survey will be conducted to identity all formal and informal Project Affected People, including any vulnerable persons or groups. A dedicated grievance mechanism will be set up and a monitoring framework for LARLP implementation will be developed with expert support.

The Project is not located within a protected area or a Key Biodiversity Areas, however about 2km of the alignment is located within 50-200m of Ichkeul Lake, which is a National Park, World Heritage Site and considered Critical Habitat for several bird species. Further consultation with the competent authorities, and additional external biodiversity assessment demonstrated that the interactions between the Project and the Ichkeul Lake will be limited to the various crossing of Oueds feeding the lake. These sensitive bodies are considered as Priority Biodiversity Features, and a Biodiversity Management Plan ("BMP") is being prepared with the support of a third party for the construction activities in these areas, consisting of specific topsoil storage and restoration, hazardous material storage, waste management procedures and ban of herbicides. No impact is expected following implementation of the plan, but an outline of Oued desilting and invasive vegetation clearance activities will be part of the plan in the unlikely event of impact, to fully comply with the No Net Loss requirements of EBRD ESR6. The BMP will be disclosed on EBRD website before Project approval and cascaded in the tender documentation of the contractors. Additional flora surveys carried out in Spring 2026 did not identify any sensitive species on the Project's route.

The ESIA and ESDD did not identify any cultural heritage site or artefact on the Project's route, and a chance find procedure will be developed as part of the ESMP to manage incidental discoveries.

The SEP has been prepared for the project and will be updated following ESDD with additional stakeholder mapping and targeted engagement activities. An external grievance mechanism will be established and implemented by the PIU. Early engagement with local authorities and adjacent communities has been undertaken by the Implementing Entity, and a dedicated Community Liaison Officer will be hired before construction starts, responsible for the implementation of the LALRP and SEP engagement and management of external grievances throughout the lifetime of the Project.

The ESAP initially prepared for the Project has been updated and agreed with the Implementing Entity, and ESAP implementation support will be provided through technical assistance financed by KfW. The updated SEP, NTS, and BMP will be prepared in English and French and disclosed on the Implementing Entity and Bank

websites. The Implementing Entity will report annually on E&S compliance and ESAP progress. This will be supplemented by external monitoring.

6.2 INTEGRITY

In conjunction with OCCO, integrity due diligence was undertaken on the relevant stakeholders related to this engagement. [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.

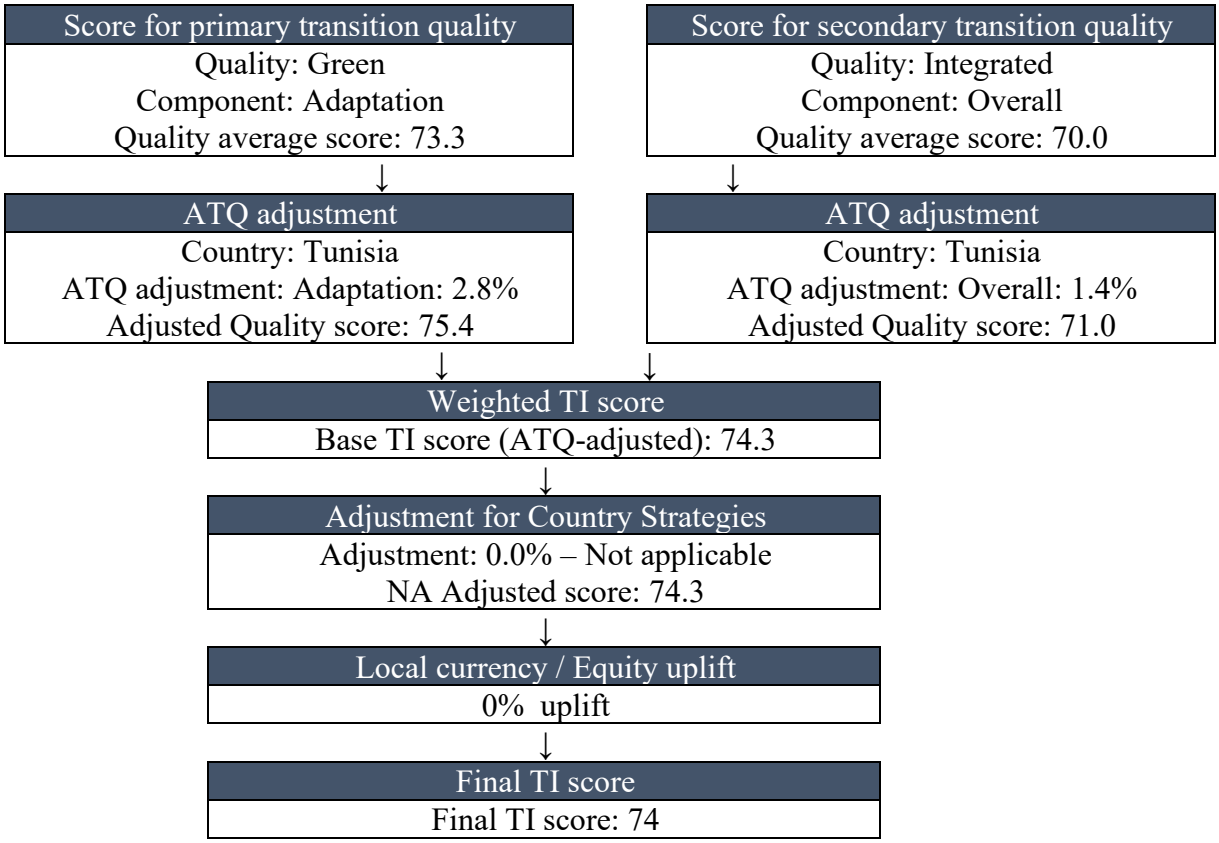
6.3 OTHER MATTERS

The use of blended concessional finance is needed given the innovative nature of the pilot project which will subsequently be followed by a full scalability assessment. The choice of the investment grant incentivizes the MAHRF to pursue this innovation in Tunisia which, once scaled up, will have important impacts in terms of decarbonisation and adoption of renewable energies in the water sector. EBRD's investment grant will also enable EBRD to provide expertise in the implementation of such pilot project ensuring proper risk mitigation, proper procurement, and full capturing of the expected impacts including alleviating recourse to conventional energy sources and ultimately reducing the energy cost for the MAHRF. The investment grant will therefore be an enabler of long-term viability of the MAHRF and the sector through the adoption of more renewable energy sources, decarbonization of the water sector, and support of innovation.
[REDACTED]

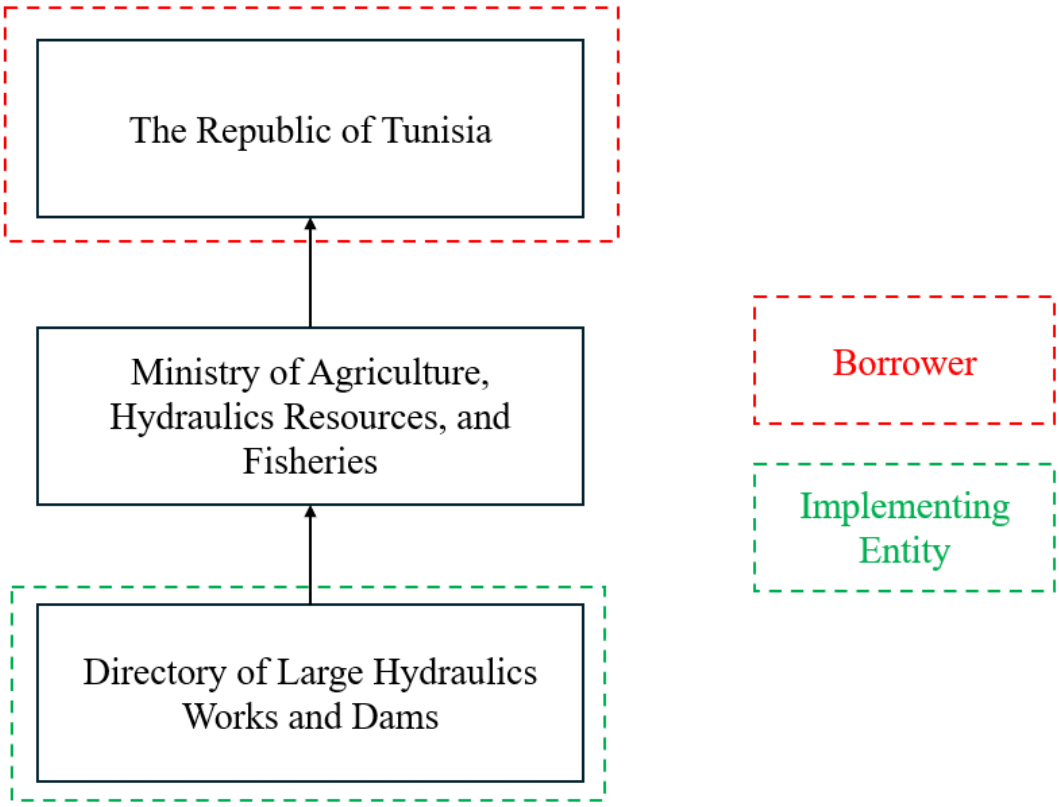
ANNEXES TO OPERATION REPORT

ANNEX 1	TRANSITION IMPACT SCORING CHART
ANNEX 2	SHAREHOLDING STRUCTURE
ANNEX 3	GREEN ASSESSMENTS
ANNEX 4	PROJECT IMPLEMENTATION
ANNEX 5	EBRD SHAREHOLDER SPECIAL FUND FICHE (INVESTMENT GRANT)
ANNEX 6	EBRD SHAREHOLDER SPECIAL FUND FICHE (TC)

ANNEX 1 – TRANSITION IMPACT SCORING CHART



ANNEX 2 – SHAREHOLDING STRUCTURE



ANNEX 3 – GREEN ASSESSMENTS

SUMMARY

- The Project comprises additional conveyance capacity for excess water in northern Tunisia to more water stressed regions in the central parts of the country. It also features a small floating solar PV component[REDACTED], with potential to scale such climate mitigation efforts in the future.
- The Project is determined **aligned with both mitigation and adaptation goals of the Paris Agreement.**
- The Project is attributed **100% Green Finance.**
- Climate-related financial risks have been assessed[REDACTED].

Changes since CRM/NTN/Exhibit A stage
The Project has not materially changed since CRM/NTN/Exhibit A stage.

PARIS ALIGNMENT ASSESSMENT

For Direct finance projects

Alignment with the mitigation goals of Paris Agreement - General screening

The Project is determined as aligned with the mitigation goals of the Paris Agreement based on the application of the Bank's Paris alignment approach for direct finance.

- The Project's activity is included in the 'MDBs' aligned list' under the category water supply systems.
- There are no activities included in the 'non-aligned list'.

Alignment with the adaptation goals of Paris Agreement

The Project is determined as aligned with the adaptation goals of the Paris Agreement as it satisfies all three steps of the assessment.

GREEN FINANCE ATTRIBUTION

The Project is attributed 100% green finance. This share has been calculated in line with the guidance for activities that enable adaptation.
Tunisia faces extreme water stress and high vulnerability to climate change, with declining precipitation and increasing droughts expected to worsen water scarcity and drive desertification. The Project responds to these risks by strengthening climate resilience through securing freshwater availability, including improved seasonal storage and inter-basin water transfers. By redistributing surplus water from the north to more water-scarce central regions, it aims to reduce climate-induced supply disruptions and improve the reliability of water services. Therefore, the Project is attributed 100% green finance for climate adaptation activities.

While climate mitigation finance is not claimed here due to the small fraction of CAPEX dedicated to floating solar PV (<1% use of proceeds), it sets an important anchor to scale climate mitigation efforts in the future.

The expected green outcomes of the transaction are approximately 109 million m3/year of water provided, primarily for drink water purposes.

GREEN PROJECT MONITORING PLAN
[REDACTED]

ANNEX 4 – PROJECT IMPLEMENTATION

Procurement classification – *Public*

Project risk assessment:

Overall risk rating - *Medium High* based on *[REDACTED]*

The Borrower's capacity assessment related risk - *Low*

[REDACTED]the Borrower's capacity assessment related risk has been evaluated as Medium High. The Borrower has previous extensive experience with IFIs and good practice of FIDIC Pink Book that they intend to use for the Project.

Contracts risk assessment - *Medium Low*

Project implementation arrangements:

The EBRD loan proceeds will contribute to finance the construction of a 4th pipeline reinforcing the capacity of the water transfer network from the Dam of Sejnene (part of the Governorate of Bizerte, north of Tunisia) to the city of Bejaoua (part of the Governorate of Tunis) (''the Project''). The Project gathers jointly and parallel financed contracts.

The project is cofinanced by KfW, the EU and the Borrower. It has been agreed that KfW will be the Lead Financier ("LF") for all jointly cofinanced contracts, hence applying its "Procurement Guidelines for KfW-Financed Contracts".

In addition, under parallel financing EBRD will finance a Grant financed investment contract as well as Grant-financed Technical Assistance contracts. The Project also comprises contracts to be financed solely by KfW or the EU without any cofinancing from EBRD.

Procurement arrangements:

The Project is classified as public for procurement purposes. Under the Project, all the works and goods contracts to be jointly cofinanced with KfW, will be procured under KfW Guidelines for Procurement as defined in the Project Implementation Agreement that shall be signed prior commencement of any procurement activity cofinanced by both Banks.

Based on KfW's prior experience and extensive implementation track record with the Implementing Entity, KfW was nominated as Lead Financier in line with art. 2.6 of the Bank's PP&Rs which states that the PP&Rs do not apply to the procurement of goods, works, services or consultancy services when "*a contract is co-financed under an arrangement reached by the Bank with another multilateral or bilateral development institution and where such institution undertakes the leading role in monitoring procurement activities in line with its own procurement procedures, which shall be acceptable to the Bank*".

KfW's Guidelines for Procurement are based on the principles of open competition and participants from all countries are eligible to be awarded contracts, except where an international embargo applies. KfW requires contracting authorities to apply the principle of the broadest possible competitive tendering in order to select the tender offering the best value for money.

In the absence of a MRA with KfW, a stand-alone PIA will detail the roles and responsibilities of each party. EBRD and KfW are finalising a PIA under which the Implementing Entity will be required to use KfW's standard tender documents and form of contracts based on the FIDIC Conditions of Contract. The FIDIC works construction type of contract (FIDIC Red book or Pink Book) will be used for the works contracts. The procurement documents will be issued in the French language. All procurement documents and contracts will be subject to KfW's prior review and KfW's formal no-objection will be shared with EBRD. In addition, no domestic preferences will be applied in the tender evaluation process.

In addition, the PIA will contain details of the agreed environmental and social aspects to be included in the procurement documentation as well as integrity related requirements such as, prohibited practices/rights to audit/covenant if integrity etc. to ensure these aspects are adequately reflected in the relevant procurement documents. No procurement activity under the Project will commence prior to the signing of the PIA.

Consultancy contracts financed by the KfW and the EU funds, will be procured following the provisions of the KfW Guidelines for Procurement[REDACTED]. Nevertheless, the EBRD will review and comment on the Terms of Reference in order to ensure that the Consultant will adhere to client's obligations towards EBRD loan as the Consultant shall support the DLHWD to implement the Project, including Works supervision.

[REDACTED]

All contracts are submitted to prior review.

EBRD will contract a Lender's Monitoring Consultant under Donors funds for the Project.

[REDACTED]

ANNEX 5 – SSF FICHE TEMPLATE FOR CO-INVESTMENT GRANTS

[REDACTED]

ANNEX 6 – EBRD SHAREHOLDER SPECIAL FUND FICHE

[REDACTED]