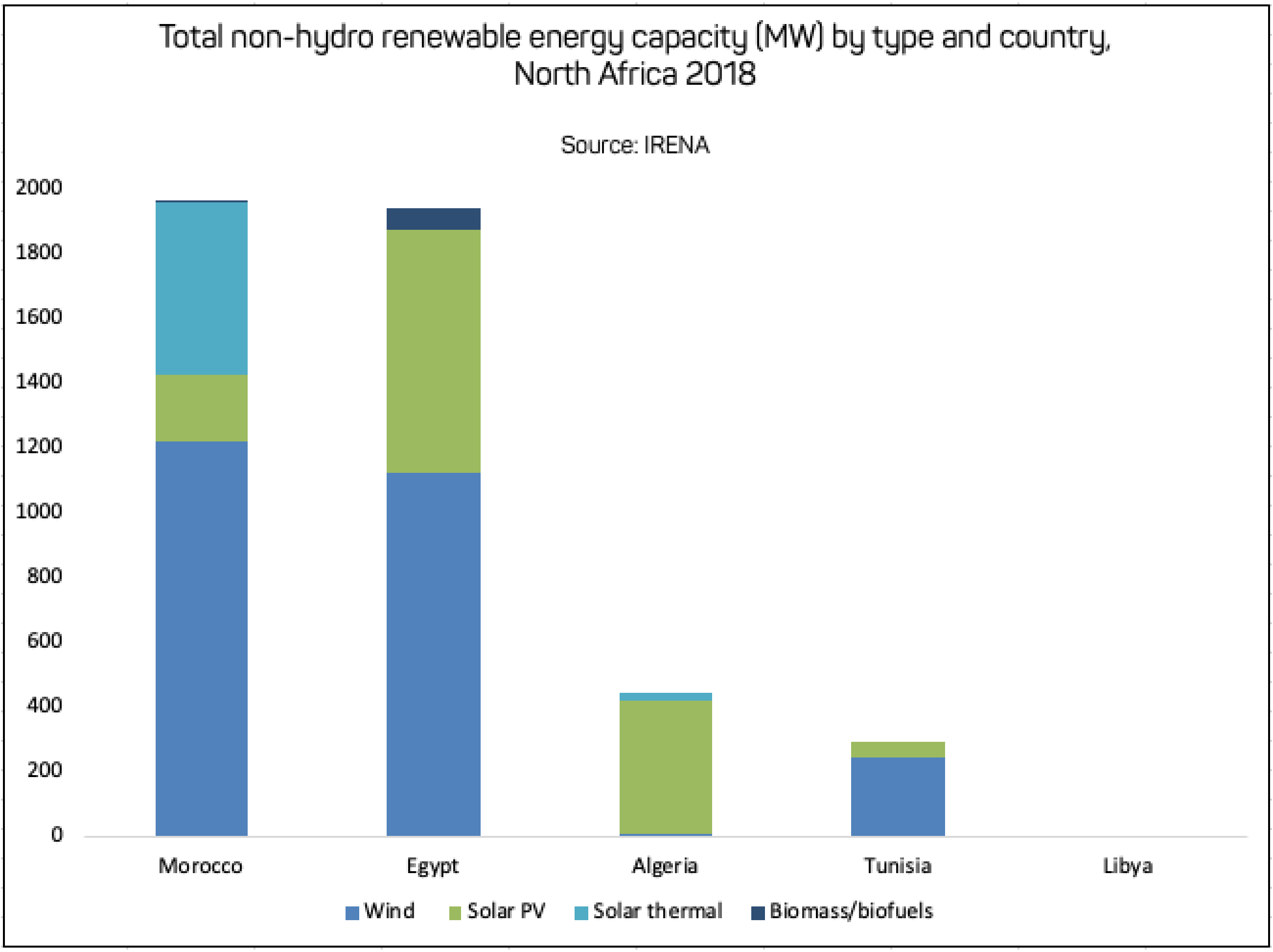
Attracting investment into its domestic renewable energy sector will remain a priority of the Tunisian government over the coming years in line with its efforts to boost energy security and increase foreign direct investment (FDI) inflows. The strong growth potential of the market and increasing competition in the global renewable energy sector will ensure the country remains an investment bright spot. Risks remain pertinent, however, given elevated levels of political uncertainty and concerns over the financial stability of the off-taker, STEG.

Tunisia, which has abundant solar and wind potential, is becoming increasingly attractive for renewable energy investment. While its renewable energy sector is smaller in comparison to Egypt and Morocco – which by end-2018 had nearly 2 GW of non-hydro renewable energy capacity installed, compared with just 300 MW in Tunisia – it is less saturated with developers and offers significant growth potential. The Tunisian government has launched several tenders for new capacity, and this will strengthen the pipeline of new renewables projects over the coming months and years, making Tunisia an increasingly important renewable energy market in the North Africa region.



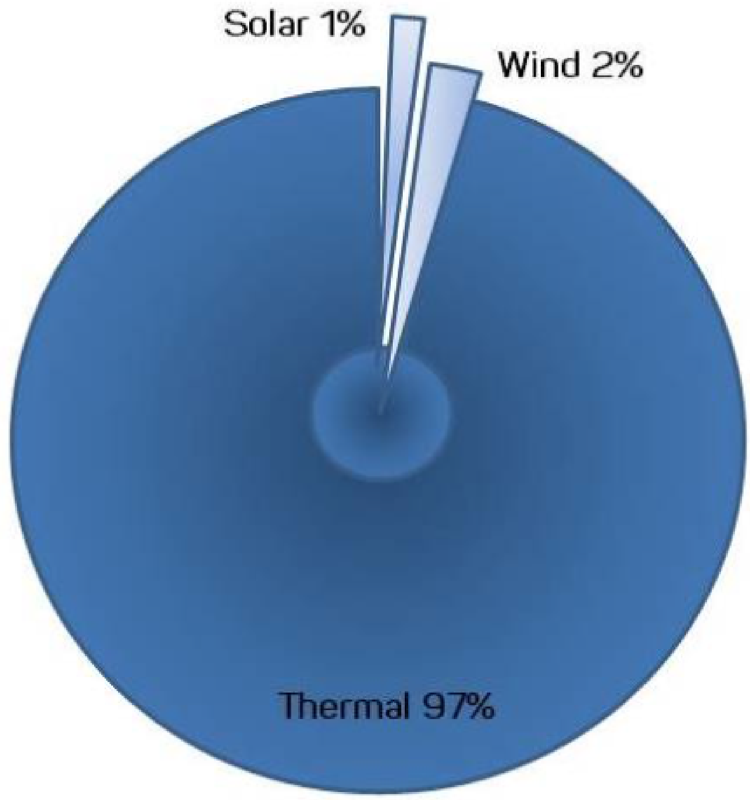

## Energy security concerns

The government's strong commitment to expanding renewables stems from a need to reduce the country's heavy reliance on imported gas, boost energy security and increase FDI into the country.

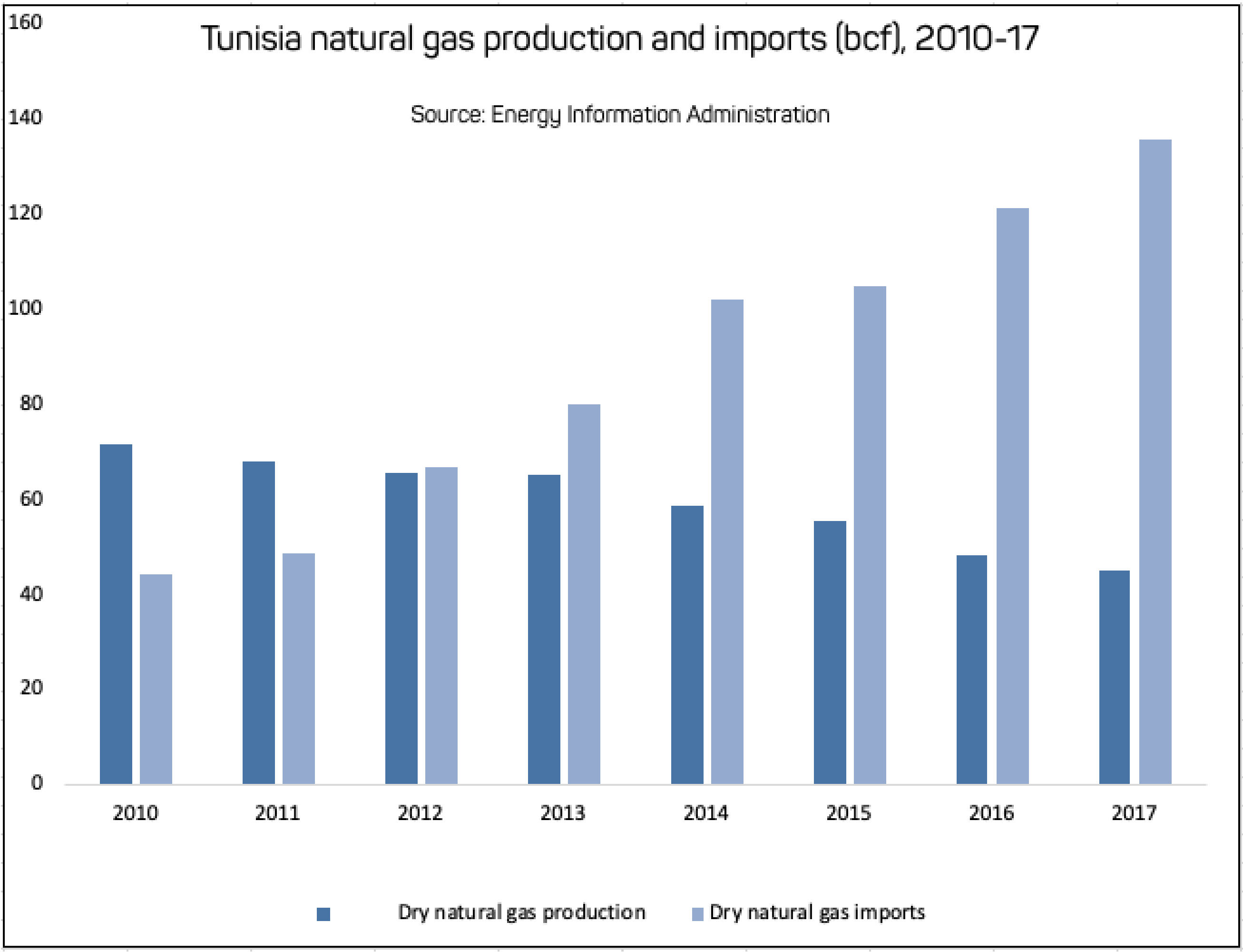
Tunisia electricity generation by type (% total terawatt hours) in 2017

Source: Energy Information Administration.




Thermal sources, the majority of which is natural gas, dominate the electricity mix, accounting for 97% of the total. The country does not produce enough gas to meet the needs of the domestic energy and industrial sector, necessitating the import of natural gas from Algeria and Libya through pipelines. Between 2012 and 2017 domestic gas production contracted by an annual average of 6.6% while gas imports more than doubled.




The commissioning of the Nawara Gas Development (production officially began in February 2020) will lessen Tunisia's import burden. However, with power demand rising steadily – electricity consumption increased by an annual average of 3.6% over the decade prior to 2017 – and no other major upstream gas developments planned, gas imports will continue to play an important role in securing Tunisia's energy needs over the coming years.

## Tenders attract investors

Galvanised by the rising import burden and encouraged by the success of other countries in the North Africa region, Tunisia's government has accelerated efforts to expand the domestic renewable energy sector. In 2016 it launched the Renewable Energy Action Plan, which aims to increase the share of renewable energy (including hydropower) to 30% of total electricity generation by 2030. In terms of capacity, it aims to reach 4.7 GW of installed renewable energy, of predominantly solar and wind capacity. Given that renewable energy sources (currently just solar and wind power) account for around 3% of total electricity generation, these are extremely ambitious targets, which offer significant growth potential.

The government launched a slew of solar and wind tenders over 2018 and 2019, offering 20-year power purchase agreements (PPAs) with state utility Société Tunisienne de l'Electricité et du Gaz (STEG). The tenders aim to encourage international players into the market, given their significant expertise in developing renewables projects and the government's wider commitment to increasing FDI into the country.

The tenders have been met with strong investor interest, due largely to the significant growth potential of the Tunisian market and rising competition in the global renewable energy sector. Heightened competition between project developers globally is driving companies to seek out less developed, and potentially riskier, renewable energy markets for business opportunities. In line with this, European renewable energy developers have been particularly active in the Tunisian renewable energy market, as they look for contract opportunities outside of their saturated domestic renewables markets. For instance, a consortium between ENGIE and Moroccan energy firm Nareva were selected as preferred bidder for a 120-MW solar photovoltaic (PV) project in January 2020, while Norwegian company Scatec Solar won three solar power projects (one 240-MW project and two 60-MW projects) in December 2019.[1] Italian oil and gas major Eni, in partnership with Moroccan firm ETAP, commissioned a 5-MW solar project in December 2019.

Companies in the Gulf region are also increasingly looking to tap into the investment opportunities on offer in Tunisia and North Africa. The UAE's AMEA Power, in a consortium with TBEA Xinjiang New Energy Co, was awarded a 100-MW solar PV project in December 2019, while both Saudi Arabia's ACWA Power and the UAE's Masdar (Abu Dhabi Future Energy Company) have bid in a Tunisian tender in recent months.[2] As a result of this robust investor interest, the project pipeline for solar and wind facilities in Tunisia has strengthened significantly.

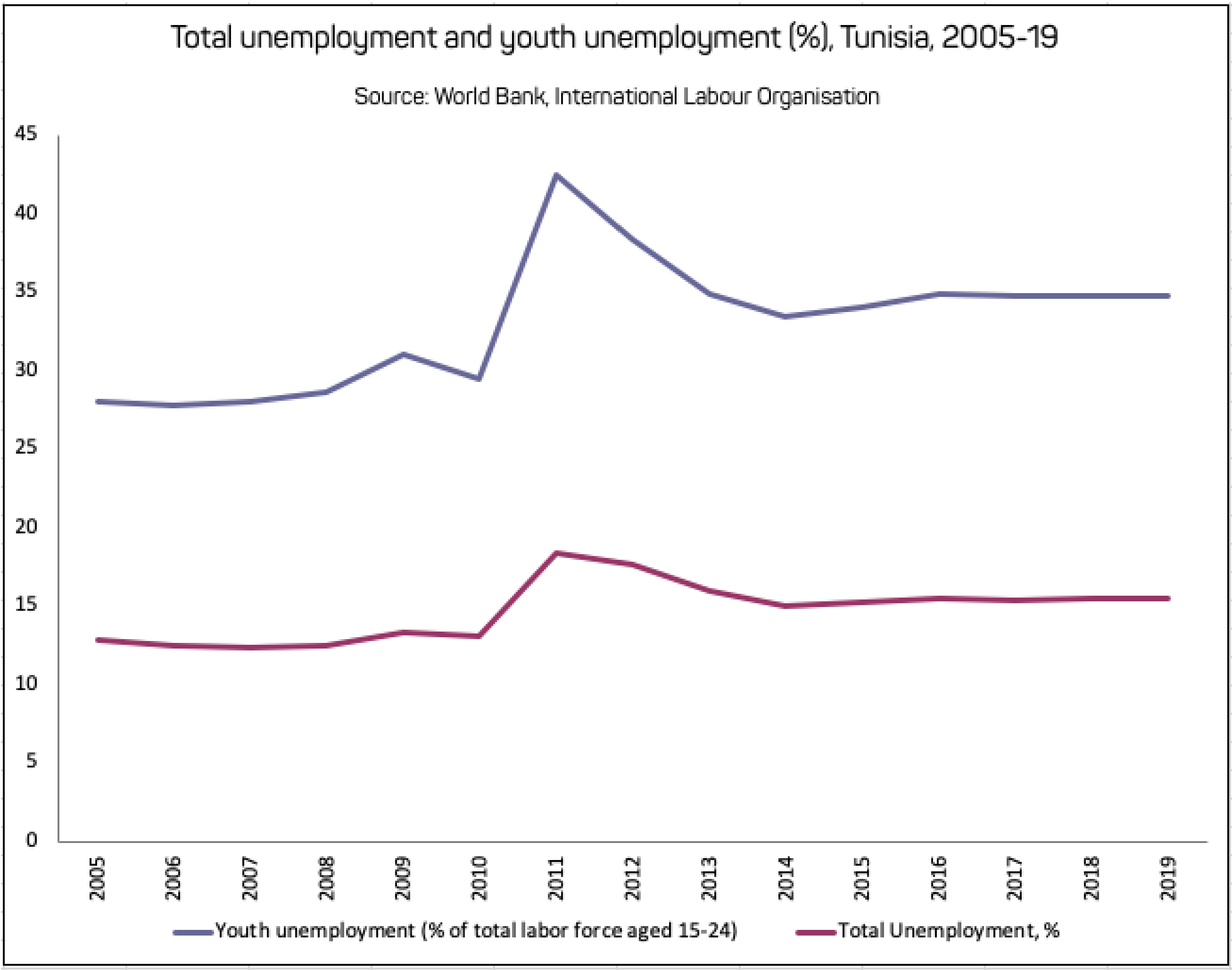
## Uncertainty persists

Risks to investors remain pertinent, however, given elevated levels of political uncertainty and concerns over the financial stability of the off-taker, STEG. These risks could impede the full realisation of the project pipeline.

Lingering political and social instability: Domestic political and social instability in Tunisia will continue to pose a risk to government stability and, by extension, investor confidence in the market. High youth unemployment and weak economic conditions, combined with increasing government efforts to reduce fuel subsidies and the public sector wage bill, will elevate the likelihood of protests and social unrest in Tunisia; as seen most recently in December 2019.

Tunisia’s parliament has been highly fragmented since the October 2019 parliamentary elections, which saw no party or alliance obtain a majority. The political stalemate ended in late February 2020, when Prime Minister Elyes Fakhfakh and his new coalition government were approved. However, the process has significantly delayed the enactment of reforms that are desperately needed to revive the economy and tackle high levels of unemployment. Progress on these reforms could be slowed by the coalition government’s precarious stability.




Off-taker financial risks: The 20-year PPAs awarded in the tendering process outline STEG as the off-taker, which will purchase all electricity produced by the wind and solar projects. However, the lack of cost-reflective tariffs in the power market and high costs for imported gas have created significant financial headwinds for STEG. This threatens the validity of the PPA for the developer and poses a bankability threat to the project if STEG cannot commit to purchasing the electricity. The government has not offered financial guarantees to ensure payment under the PPAs.

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