



SOLOMON ISLANDS: TINA RIVER IPP

The Solomon Islands Government ("SIG") has made diversifying and increasing the nation's electricity supply a priority and set out to develop the country's first privately financed hydropower Independent Power Producer ("IPP"). The Solomon Islands has one of the lowest electrification rates in the world and is heavily reliant on expensive, imported diesel fuel, which is highly polluting. This has resulted in electricity prices being among the highest in the world with the reliance on imported fuel also exposing the country to global fuel price fluctuations and shocks.

IFC advised SIG on the design and implementation of a competitively tendered public-private partnership (PPP) for a 15MW hydropower plant on the Tina River. The tender was awarded to Tina Hydropower Limited, comprising Korea Water Resources Corporation (K-water) and Hyundai Engineering Company (HEC), with project agreements signed in December 2018. Once completed, the project will help power the Honiara grid, decrease the country's reliance on imported diesel by almost 70%, making electricity more affordable, and helping pave the way for the Solomon Islands to meet its 2025 greenhouse gas emissions (GHG) target.

This series provides an overview of public-private partnership stories in various infrastructure sectors, where IFC was the lead advisor.

IFC
Public-Private Partnerships
2121 Pennsylvania Ave. NW
Washington D.C. 20433
ifc.org/ppp

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BACKGROUND

The Solomon Islands has one of the lowest electrification rates in the world – less than 20% of the population has access to electricity. With 97% of the country's electricity being produced by generators fueled by imported diesel, the cost of electricity for consumers are also amongst the highest in the world, creating hardships for households and small businesses. This reliance heavily exposes the country to fluctuations in oil prices, which can have severe impacts on generation costs, as well as broader economic implications through current account deficits.

The World Bank and the European Investment Bank have supported SIG in its efforts to transition away from diesel fuel since 2006, including studying hydropower development on the Tina River. SIG sought a qualified private sector partner with experience in constructing and operating complex hydropower projects to develop the Tina River IPP as the first large scale PPP in the country's energy sector.

The World Bank actively supported the project from early stages, including identifying potential renewable energy sources, conducting feasibility studies for project locations, and assisting SIG to secure funding for the project.

IFC'S ROLE

In October 2009, SIG appointed IFC as the lead transaction advisor for the preparation and tender of the Tina River IPP project. IFC and its legal and technical team advised SIG on project preparation, the tender process, and negotiations of the project and financing agreements with the preferred bidder. IFC also helped develop the suite of project agreements, including the Power Purchase Agreement, an Implementation Agreement, a Government Guarantee, and a Land Lease Agreement as well a suite of financing agreements for the on-lending.

IFC advised SIG through commercial close in December 2018 and up to financial close in December 2019, and continued providing post-transaction advisory services until June 2022.

TRANSACTION STRUCTURE

IFC prepared a transaction structure for a qualified private investor to design, finance, construct and operate a 15MW hydro plant on the Tina River, 20 kilometers southeast of Honiara. Originally structured to be fully financed by the private sector, the steep decline in oil prices in 2015-16 meant projected tariffs became less competitive, risking the financial viability of the project and a continued reliance on polluting diesel fuel. As a result, concessional finance was introduced into the financing structure in combination with private financing through equity and an on-lending arrangement from SIG to the project company. Financiers supporting SIG on the project include the World Bank's IDA, Asian Development Bank, Korea Exim Bank, Government of Australia, the Green Climate Fund, and Abu Dhabi Fund for Development. The Multilateral

Investment Guarantee Agency (MIGA) provided a guarantee to the project sponsors.

BIDDING

The Tina River Hydropower Development Project is the first large-scale infrastructure project to be developed as a PPP in Solomon Islands. A consortium composed of Korea Water Resources Corporation (K-water) and Hyundai Engineering Company (HEC), was awarded the project. Project agreements between the project special purpose vehicle and SIG agencies were signed in December 2018, and financial close was achieved in December 2019.

The project has undergone several delays due to the impact of the Covid-19 pandemic resulting in a construction completion delay of at least one year. Once completed, the Tina River Hydro Plant will supply the Honiara grid, which accounts for about 80-90% of the total installed capacity in the Solomon Islands, with a peak demand of about 16 MW. The plant is expected to supply approximately 65% of the electricity demand in Honiara, representing a significant shift in the energy mix away from fossil fuels towards renewables, greatly reducing greenhouse gas emissions, and delivering cheaper, cleaner power for Solomon Islanders.

EXPECTED POST-TENDER RESULTS

- Over \$200 million in private and public investments
- Substitution of approximately 65% of fossil fuel generated power with renewable power
- Reduction in GHG emissions of about 50,000 tCO₂eq/year

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