

M-POWER RESEARCH FELLOWSHIP, July 2008

Research proposal: Yin Yu

1. Full title:

Political Risk Insurance and Corporate Social Responsibility in Laos Hydropower Development: The Case of Sinohydro, MIGA and NamNgum 5

2. Short title (less than 8 words)

Political Risk Insurance in developing hydropower in Laos

3. Summary (100 words or less, make sure to provide specific objectives)

In recent year, Laos has become a focal point for hydropower development in the Mekong Region. The Lao government claims Lao has over 80% of the Mekong hydropower potential (18,000 KW), yet less than 5% have developed¹. The eagerness of the government in promoting dam building has perfectly matched with the Chinese “Go Out” policy. Sinohydro has signed MoUs for five hydropower projects in Lao. The first project -- NamNgum 5 Dam -- is a 25-year BOT (build, operate, transfer) project. This is the first project where a Chinese company has requested a political risk guarantee from MIGA, the Multilateral Investment Guarantee Agency of the World Bank. Thus this research would like to study the relationship between these two parties, whether their interactions could contribute to an economical, social and environmental accountable project and why Sinohydro has requested this sort of support despite having its own guarantee agency, Sinosure.

4. Rationale & background (200 words or less)

Laos, the mountainous and landlocked country in the Mekong Region, is claiming to be the “battery” of Southeast Asia. With the belief that hydropower will be the promising “cash cow” for Laos, the governments have prioritized hydropower development on the national agenda and have signed a series of contracts on hydropower construction and electricity export. Meantime, the booming economy in the Mekong Region has attracted dam investors and founders from both North and South to visit Laos and negotiate hydropower business. Sinohydro, a Chinese state-owned hydropower construction company, have signed MoUs for five large hydropower projects agreements in Laos, and the first project--NamNgum 5 Dam has already started construction. To reduce the foreign investment risk, Sinohydro has approached MIGA for political risk insurance. Due to its lack of experience in operating international projects, Sinohydro has received various criticisms from international civil society on their projects’ social and environmental impacts, which has an influence on their projects’ perceived political risks.

This research focuses on the working relationship between Sinohydro and MIGA at NamNgum 5 dam and whether through the MIGA guidelines and monitoring, the project will be more socially and environmentally responsible, and in return reduce the associated political risks to all parties. As this is the first dam in Laos that Sinohydro has requested MIGA support, we are also interested in whether other projects that Sinohydro has signed MOUs for will also seek out MIGA support.

¹ Source from <http://www.poweringprogress.org/lao-energy/index.htm>, accessed in June 17, 2008

5. Research questions (100 words or less)

What is the wider significance of the interaction between Sinohydro and MIGA in Laos?

Sub questions:

1. What are the reasons that Sinohydro sought political insurance for the NamNgum 5 Dam?
2. Why did Sinohydro choose MIGA to be the political insurance agency?
3. Who were the key actors that influenced this process within Sinohydro, MIGA or within the Lao government?
4. How have the interactions between the parties affected the practices of Sinohydro in implementing the NamNgum 5 Dam project?
5. Do observed changes in behaviour and practices constitute or contribute towards (corporate) social and environmental responsibility? Will they reduce the dam's political risk?
6. Will this result in Sinohydro requesting MIGA to support more projects in Laos or elsewhere in the region?
7. Will the changes in behaviour improve the water governance? And How?

6. Methods & study design (300 words or less)

The research method will use secondary data analysis and field surveys (working with the PN67 team in Laos), focus groups and interviews.

Secondary data collection: Firstly, the literatures review on theories of institution, actors, power dynamic stakeholder analysis, corporate social responsibility and others of relevance. Secondly, review of data, such as, Sinohydro organizational structure, national and international performance, NamNgum 5 Dam social and environmental assessment, and MIGA requirement and cases studies, from various reports and news searched from internet, newspapers and journals, related documents and publications.

Primary Data:

Survey: The researcher (Yu Yin) plans to work with John Dore and Kate Lazarus, the team leaders of PN67 "Improving Mekong Water Allocation" Program in Vientiane, Laos for at least four to six months. Both supervisors have good relationship with the World Bank Lao office, and have made some connection with Sinohydro. The donor of PN67, the Bluemoon Foundation, also has linkages with Sinohydro in Beijing. Through their network, the researcher will learn about the dam development process in Laos, Sinohydro foreign investment process, MIGA requirement and the Sinohydro and MIGA's negotiation process. The researcher will also go to attend relevant hydropower meetings in Vientiane and maybe in Beijing to gain more information, and to identify and interview the key actors in NamNgum 5 dam development process. Researcher has travelled in Lao several times and speak some Laotians, which facilitates her to conduct focus groups and interviews with the locally impacted communities and other stakeholders in the decision making process.

The research target groups:

- Key decision makers and project team in Sinohydro Lao office, Vientiane.
- Negotiation and monitoring officers from MIGA, World Bank Office in Washington, DC and World Bank Lao office, Vientiane.
- Relevant Lao government departments, such as Water Resource and Environmental Agency, Department of Electricity of Ministry of Mines and Energy, Ministry of Planning and Investment, EDL.
- Relevant Chinese government representatives in the project negotiation, such as Ministry of Commerce in Chinese Embassy of Laos.
- Projects: M-POWER Project PN 67: Improving Water Allocation in the Mekong Region
- Global Environmental Institute (GEI) officer in Laos.
- Dam impacted local communities.

- International organizations in Laos, such as World Bank and Asian Development Bank, International Hydropower Association, and international NGOs.
- Consultants who carried out the NamNgum3 CIA and are working on other projects within the cascade of dams

7. Activities with approximate time-line (200 words or less)

The fellowship starts 1st August, 2008 and expected to take 12 months to finish, July 30th, 2009. The estimated time-line follows.

1. Secondary Data Collection: this activity will be done from July to November. The literature review, background of cases and theoretical framework will be accomplished by 30 September 2008.
2. Field Survey: from September 2008 to January 2009, during this time, the researcher will be in the field and working with the PN 67 team to collect primary data and conduct meetings, interviews and focus groups on NamNgum5 dam project and the key actors in the project.
3. Analyse the findings and draft the first paper: this activities will started in September and first draft will be finished in December 2008. In the writing process, November and December will the intensive writing time.
4. Editing the paper upon the recommendation of the PN 67 research leaders, and submission of the final paper by the end of May (as per the common PN 67 research schedule).

Table for the activities schedule

Activities	Aug	Sept	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul
Secondary data collection	xx	xx	xx	x	x	x						
Field Survey:			xx	xx	xx	x	x	x				
Analysis of Finding and Submission of the first draft				x	x	xx	xx	xx				
Editing and Final Draft completion									xx	xx	xx	xx

Note: xx = intensive and focused, x = preparing or keep on updating.

8. Expected outcomes (100 words or less)

By the end of the research period, the researcher will publish at least one research paper in an academic institution or civil society publication. The progress of the research and findings will be shared among M-Power partners at all stages of the fellowship. The research results will evaluate the current Chinese foreign investment performance in hydropower construction in Lao, the effectiveness of MIGA in political risk guarantee, and governance capacity of relevant Lao government departments, such as Ministry of Energy and Mines, Ministry of Planning and Investment and WREA (Water Resource and Environment Agency). The research result will also attempt to offer some recommendations to Chinese foreign investors on key cautions of corporate social responsibility and political risk reduction for long term investment in Laos.

10-a Which M-POWER Comparative Study will this research contribute to? How?

Hydropower Study: This research will focus on the infrastructure developments that have involved multiply countries actors in Lao hydropower development. The NamNgum5 dam project is the case study site. This is the first project invest by Sinohydro and first time Chinese enterprise approaches MIGA for political risk insurance. The research would like to assess whether the MIGA procedural and the collaboration of MIGA and Sinohydro will help Sinohydro to reduce the political risk and upgrade its corporate social responsibility image in foreign hydropower development.

This research will contribute to the Hydropower Comparative Study of M-POWER and to PN 67.

10-b Which M-POWER Theme(s) will this research contribute to? How?

Dialogue theme. The research will study the negotiation dynamic between Sinohydro and MIGA, and relevant dialogue processes of Sinohydro with other key stakeholders in the project implementation. The research findings would also provide recommendations for Sinohydro in developing more responsible project overseas.

10-c How does the proposed research fit into the priorities and work plan of the host organisation?

- My proposed Dialogues research is a core priority of M-POWER and my proposed host, Griffin nrm. Griffin nrm is the home organisation for the M-POWER Dialogues Working Group leader – John Dore. Therefore, it is a good place for me to base, as he will be organising and continuing to work with people across the region who believes that there should be dialogue between stakeholders to improve public policy and accountability. The co-leader of the M-POWER dialogues group is Kate Lazarus. In the past, at Green Watershed (with Yu Xiaogang and his team) I have worked with both John and Kate. I know we can work together.

There are two other projects in my proposed host workplan that focus on Dialogues:

- M-POWER partners (including Griffin nrm) will be implementing the next steps in the Exploring Water Futures Together 2 building on effort of past years. It is a very good opportunity for a young governance researcher to be very closely involved. John Dore and Kate Lazarus are the leaders of this project.
- John Dore is the leader of a new Challenge Program project (#67) called ‘Improving Mekong Water Allocation’. This research is about political drivers and water-related decision making. Multi-stakeholder dialogues. Kate Lazarus will lead the ‘place’ study in the 5 dam and I will work collaboratively with her on this.

11. Total budget**11,200 USD****12. Are there other sources of financial and/or in-kind support for this project?**

No other financial support. However, I expect Griffin nrm to provide me with a working base in Chiang Mai and Vientiane, and other M-POWER partners to also make me welcome.

13. Did you receive assistance in completing this application form? If so please describe the level and nature of the assistance (by whom and in what ways).

I prepared the original application, as I considered what my next step should be after ISS. (I did share and discuss the draft with John Dore, to learn more about the work plan of M-POWER partners and my host PO). I was pleased to be awarded an M-POWER fellowship, but soon realized (including due to feedback from M-POWER coordination unit) that I needed to tighten up and strengthen my proposal. I had thought that Kate Lazarus would be doing field work in 3S (especially NE Cambodia) but this plan has now changed due to the very important and interesting developments in Laos with Sinohydro and MIGA in the NamNgum river basin. I have reworked the proposal after discussions and preliminary research on this NamNgum situation.

So, I have made two major changes. First, changing in focus from civil society actors to “corporate” like Sinohydro and MIGA. This is good for me because I have so far had most experience with civil society groups and another perspective would be beneficial for me. Second, changing in place from 3S to Laos. This is practical because it allows me to be working more closely with my supervisors, John and Kate. Kate is already based in Laos, and John will relocate there by end of 2008.

I hope that M-POWER accept these changes. It gives me better chance to produce the high quality research report. It gives me the chance to engage with Chinese corporate actor and World Bank “family” corporate actor in a real-time, very interesting process.