



**Namibia IPP and Investment
Market Framework Technical Assistance**
USTDA Grant Number: GH051130313

Volume II: Annex 9
EXPERIENCE WITH IPPs – SELECTED EXAMPLES



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December 2006



This report was funded by the U.S. Trade and Development Agency (USTDA), an agency of the U.S. Government. The opinions, findings, conclusions, or recommendations expressed in this document are those of the author(s) and do not necessarily represent the official position or policies of USTDA. USTDA makes no representation about, nor does it accept responsibility for, the accuracy or completeness of the information contained in this report.

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Namibia IPP and Investment Market
Framework Technical Assistance
Under a Grant by the U.S. Trade and
Development Agency



ANNEX 9

The Experience with Independent Power Projects (IPPs)
in Developing Countries

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*General Counsel's Roundtable
Stanford University
Jan. 22, 2005*

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Overview:



- Methodology and goals of PESD study
- Current scorecard: country performance
- Explaining country performance
- Exploring project performance
- Discussion



Methodology and Status
of PESD Research



- Organized around three clusters of variables:
 - Country investment climate
 - Country electricity sector
 - Project structure and management
- Proceeding in two stages:
 - Country studies – 9 countries
 - Project studies – 12-15 projects




What Are We Trying to
Explain?



- Country Performance:
 - Legal outcomes – did the country enforce critical IPP contracts?
 - Project outcomes – did the country exploit private investors or respect the underlying relationship?







Country Performance: Legal Outcomes

8 of 10 sample countries = Widespread changes to contracts

IPP Contracts Stable	IPP Contracts Unstable
Mexico	Argentina
Turkey	Brazil
	China
	India
	Malaysia
	The Philippines
	Poland
	Thailand






Country Performance: Project Outcomes

Tentative Conclusions



5 of 10 Countries = Exhibit positive country performance

Positive Country Performance	Negative Country Performance
Mexico	Argentina
The Philippines	Brazil
Poland	China
Thailand	India
Turkey	Malaysia


Country Performance: Core Propositions

- Evaluating country performance requires distinguishing legal outcomes and project outcomes.
- Legal outcomes are largely driven by economic and financial factors.
- Positive country performance can exist in seemingly adverse conditions. The question is how?

Country Characteristic #1: Investment Climate

- Cluster of variables relating to country conditions:
 - LEGAL: rule of law, enforcement of contracts
 - FINANCE: public finance, capital markets
 - ECONOMIC: macroeconomic and currency stability
 - POLITICAL: political risk, corruption






Country Characteristic #1: Investment Climate

- No country factor seems critical across countries.
 - Rule of law –
 - China clearly problematic, but poor rule of law didn't limit Mexico, Philippines, and often did not seem relevant.
 - Finance –
 - Local finance helped somewhat in Thailand and Malaysia, yet lack thereof has not limited performance in the Philippines.
 - Macroeconomy –
 - Seems to drive legal outcomes, but not overall country performance.
 - Political risk –
 - Relevant in India, but intense political controversy has not limited the Philippines from performing well in managing stress.


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Country Factor #2: Electricity Sector

- Financial health of the electricity sector.
- Status and goals of sector reform efforts.
- Legal framework for private investment in power.


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Country Factor #2: Electricity Sector

- Again, no measure seems critical across countries.
 - Financial Status of Sector:
 - Contributes to legal outcomes (*secondary to macro context*)
 - ... but does not constrain overall performance.
 - Electricity Sector Reform:
 - Continuing reform is often difficult on IPPs (China).
 - Stalled reform may be positive (e.g. Mexico).
 - Legal Framework for IPPs:
 - Poor legal framework clearly important to investors
 - Poor framework can drive outcomes (e.g. China).
 - But, more work is necessary to isolate this variable.


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Explaining Legal Outcomes

- Allocation of market and currency risk to the host government in standard IPPs seems to have failed under pressure ...
 - Malaysia, Thailand, Philippines, Argentina: macro
 - China: supply-demand situation
- Counterexamples:
 - Mexico, Turkey: IPPs have not been stress tested.



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The Puzzle: Explaining Country Performance Beyond Legal Outcomes




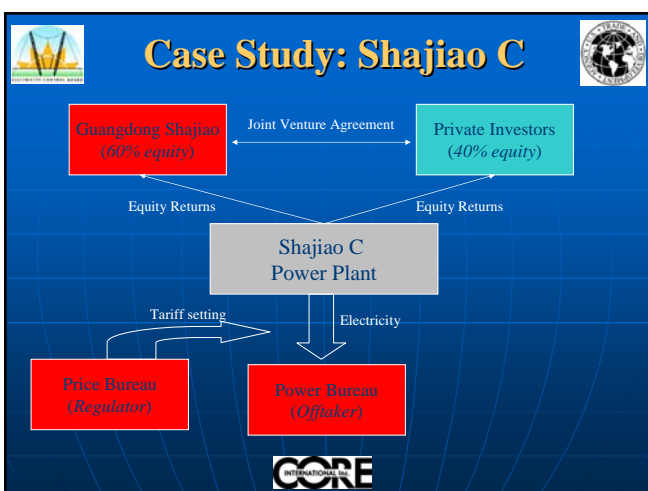

- The Philippines: How does a country with indications of a foreign investment disaster end up with credible policy in the wake of crisis?
- Argentina: Is the radical reversal of policy explained only by the severity of the 2001 crisis?
- China: Would they have to improve “rule of law” in the country in order to improve IPP results, or would more modest (but focused) changes suffice?
- India: Why does political risk seem to have a more direct impact on contracts here than elsewhere?


Project Performance: Overview




- Has a project met the reasonable expectations of key stakeholders?
- How can we explain the variation in project performance?
 - What factors allow a project to manage legal or political risk more effectively?
 - What makes a project better able to respond effectively to changing circumstances?

Case Study: GVK



- PPA renegotiated three times (1994, 1996, current).
 - But, earning enough money to justify an expansion of capacity.
- How?
 - GVK is a prominent local businessman.
 - IFC involved as equity- and debt-holder.
 - Debt service and O/M are covered at 68.4% PLF.
 - Tariff has been roughly 4¢/kWh.
 - Construction financed on balance sheet.





Key Questions:

- Why not design a project for instability? What would such a project look like?
- How should we evaluate observed outcomes such as what we see in the Philippines?
 - What factors determine investors' and lenders' response to change?

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Conclusion: Next Steps for PESD Research

- Country Visits:
 - Refine understanding of country experience.
 - Test our basic hypotheses.
- Project Case Studies:
 - Compile testable database of projects.
 - Assemble case studies that test hypotheses.
- Evaluation of Specific Issues:
 - Effectiveness of specific legal mechanisms.
 - Effectiveness of partnering strategies.

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