



# Report and Recommendation of the President to the Board of Directors

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Project Number: 47913  
May 2014

## Proposed Loans, Equity Investment, and Guarantee Yangon Urban Renewal and District Cooling Project (Myanmar)

This is an abbreviated version of the document approved by ADB's Board of Directors that excludes information that is subject to exceptions to disclosure set forth in ADB's Public Communications Policy 2011.

Asian Development Bank

## CURRENCY EQUIVALENTS

(as of 30 April 2014)

Currency unit – kyat (MK)

MK1.00 = \$ 0.001

\$1.00 = MK 965

## ABBREVIATIONS

ADB	–	Asian Development Bank
FMI	–	First Myanmar Investment
IFC	–	International Finance Corporation
MIHL	–	Mee Ya Hta International Hotel
PRG	–	political risk guarantee
MRT	–	Ministry of Rail Transportation
SPA	–	Serge Pun & Associates
YOMA	–	Yoma Strategic Holdings

## NOTE

In this report, "\$" refers to US dollars.

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## PROJECT AT A GLANCE

<b>1. Project Name: Yangon Urban Renewal and District Cooling Project</b>		<b>2. Project Number: 47913</b>	
<b>3. Country:</b> Myanmar		<b>4. Department/Division:</b> Private Sector Operations Department Private Sector Infrastructure 2	
<b>5. Sector Classification:</b>			
	Sectors	Primary	Subsectors
	Water supply and other Municipal infrastructure and services	√	Urban sector development
	Energy		Energy efficiency and conservation
<b>6. Thematic Classification:</b>			
	Themes	Primary	Subthemes
	Economic growth		Widening access to markets and economic opportunities
	Environmental sustainability		Urban environmental improvement
	Private sector development		Private sector investment
<b>6a. Climate Change Impact:</b>		<b>6b. Gender Mainstreaming:</b>	
Adaptation		Gender equity theme	
Mitigation	√	Effective gender mainstreaming	
Not applicable		Some gender elements	√
		No gender elements	
<b>7. Targeting Classification:</b>		<b>8. Location Impact:</b>	
	<b>Targeted Intervention</b>		
	Geographic dimensions of inclusive growth	Millennium development goals	Income poverty at household level
√			
<b>9. Nonsovereign Operation Risk Rating : NSO10</b>			
<b>10. Safeguard Categorization:</b>			
	Environment		<b>B</b>
	Involuntary resettlement		<b>C</b>
	Indigenous peoples		<b>C</b>
<b>11. ADB Financing:</b>			
	<b>Sovereign/Nonsovereign</b>	<b>Modality</b>	<b>Source</b>
	Nonsovereign	Project Finance Loan	OCR
	Nonsovereign	Equity Investment	OCR
	Nonsovereign	Political Risk Guarantee	OCR
			Amount
			\$50 million
			\$20 million
			\$20 million
<b>12. Cofinancing:</b>			
	<b>Financier</b>	<b>Category</b>	<b>Amount (\$ million)</b>
	International Finance Corporation	Loan	\$50 million
	International Commercial Banks	B Loan with PRG	\$30 million
	<b>Total</b>		<b>\$80 million</b>
<b>13. Counterpart Financing:</b> Not applicable			
<b>14. Aid Effectiveness:</b> Not applicable			

## I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed loan of up to \$50 million, (ii) a proposed equity investment of up to \$20 million, (iii) a proposed B loan of up to \$30 million, and (iv) a proposed political risk guarantee (PRG) of up to \$20 million for the Yangon Urban Renewal and District Cooling Project in Myanmar.<sup>1</sup>

## II. THE PROJECT

### A. Project Identification and Description

#### 1. Project Identification

2. Myanmar is currently experiencing dynamic economic growth as it implements ongoing political and economic reforms in its transition to a more democratic system and liberalized economy. It is also experiencing a rapid influx of business and tourism as the country opens as an appealing new destination for investment and attractions. However, the steady increase of international visitors is currently overwhelming Yangon, the country's largest commercial city and transit hub, due to the surge in demand for basic tourism and business infrastructure such as hotel rooms, long-term accommodation, and office space. Chronic underinvestment in tourism and business infrastructure has left the city with an inadequate and insufficient supply of working and living spaces. The severe shortage of basic infrastructure in Yangon is a growing impediment to economic growth, job creation, and foreign investment. The country requires an estimated \$146 billion in urban infrastructure investment for its large cities during 2010–2030; of this, almost 60% is required for residential housing (\$87 billion) and more than 10% (\$17 billion) for commercial space.<sup>2</sup>

3. The project comprises the revitalization of an emerging central business district, including hotel, retail, office, and residential space; and a district cooling plant and network to serve the locality. The overall development will also restore and preserve a prominent heritage building that will become a significant feature of the project site.<sup>3</sup> The project will be the first project finance transaction under the new Foreign Investment Law, and is identified by the Asian Development Bank (ADB) and International Finance Corporation (IFC) as a priority to help reduce the acute supply shortage in Yangon, stimulate business and tourism activity, and set a precedent for international standards in the sector. The commercial lending market in Myanmar is at a nascent stage as local and international banks are unable to finance large and complex projects without multilateral assistance. This project places ADB and IFC at the forefront of undertaking the first international project financing in Myanmar under the new foreign investment law. The project's demonstration effects will help commercial banks gain confidence in the Myanmar market and set a blueprint for financiers to replicate and advance similar developments. Because Yangon is a crucial engine for generating economic growth and jobs, the development of a competitive, equitable, and environmentally sustainable city through projects such as this one is a strategic priority for the country.

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<sup>1</sup> The design and monitoring framework is in Appendix 1.

<sup>2</sup> McKinsey Global Institute. 2013. *Myanmar's Moment: Unique Opportunities, Major Challenges*. New York.

<sup>3</sup> Cultural and historic heritage sites are often at risk during rapid and unplanned economic expansion. Yangon's invaluable heritage buildings are at risk from long decades of neglect and, more pressingly, now from a new wave of commercial development that threatens century-old buildings in the downtown area that are being demolished with alarming speed. The overall development includes the restoration and adaptive reuse of the former headquarters of the British Burma Railway Company, a Victorian building built in 1877 that is currently in a dilapidated state. While the restoration will not be part of the ADB and IFC investment and financing, it will be an integral part of the project site and an important element through shared infrastructure and synergies with the project.

4. The concentration of business and tourism activity in Yangon will put increasing pressure on public utilities and the environment. Yangon has a hot tropical monsoon climate in which daytime temperatures hover around 30°C. Accordingly, air conditioning is an expensive necessity for businesses and tourism, and accounts for a significant percentage of electricity consumption, especially during peak periods. The project will include the country's first district cooling plant, which will provide sustainable, efficient, reliable, and essential cooling services. The plant will use state-of-the-art technology to significantly reduce electricity consumption for cooling compared with conventional air conditioning. The plant will help reduce the strain on Yangon's electrical grid, reduce power plant fuel consumption, provide cost savings to end-users, and reduce greenhouse gas emissions.

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### 2. The Borrower and Sponsor

5. Mee Ya Hta International Hotel (MIHL) will be the counterparty under the master lease with MRT. The project company will be either MIHL or a newly created special purpose company with a back-to-back lease with MIHL (the borrower). The expected shareholding of the borrower is Yoma Strategic Holdings (Yoma, 48%), First Myanmar Investment (FMI, 12%), and Mitsubishi Corporation and Mitsubishi Estate (together, 30%). ADB (5%) and IFC (5%) are proposing a minority shareholding in the project.<sup>4</sup>

6. Yoma is a Singapore-listed company with property, agriculture, tourism, and automobile dealership businesses in Myanmar. It was listed on the main board of the Singapore Exchange in 2006 and has a current market capitalization of approximately \$700 million.<sup>5</sup> The company was ranked in the top 12% of Singapore Exchange-listed companies in the 2013 governance and transparency index.<sup>6</sup> Yoma is an associated flagship company of Serge Pun & Associates (SPA).<sup>7</sup> FMI was established in 1992 as one of the first public companies in Myanmar. It is a diversified company with a core focus in property development, followed by automotive, services (such as health care), banking, agriculture, retail, and tourism. FMI is a subsidiary and Myanmar-incorporated flagship company of SPA. As a Myanmar public company, FMI has a broad local shareholder base of more than 6,000 who own approximately 30% of FMI's capital.

7. Mitsubishi Corporation and Mitsubishi Estate will jointly invest in the project. Mitsubishi Estate is listed on the Tokyo Stock Exchange and is the second largest real estate company in Japan with more than 120 years of experience developing urban districts. Since 1890, Mitsubishi Estate has been instrumental in transforming Marunouchi into a world-class business district that accommodates approximately 100 buildings and 4,000 companies employing 230,000 office workers in Tokyo. Mitsubishi Estate has a market capitalization of approximately \$38.5 billion<sup>8</sup> and comprises more than 50 subsidiaries and affiliates working in office, commercial, and residential property development; leasing; marketing; hotel management; brokerage; and investment advisory services. Mitsubishi Corporation is listed on the Tokyo Stock Exchange. As Japan's largest trading company, it develops and operates businesses across several sectors including industry, finance, energy, metals, machinery, and chemicals. Mitsubishi Corporation has a market capitalization of approximately \$31 billion (footnote 8), and

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<sup>4</sup> The heritage hotel will be developed as a separate special purpose company owned by The Hongkong and Shanghai Hotels (70%, operator of Peninsula Hotels), Yoma (24%), and FMI (6%).

<sup>5</sup> As of 31 January 2014.

<sup>6</sup> Business Times.2013. *Governance and Transparency Index 2013-The Full Rankings*. Singapore.

<sup>7</sup> Information on SPA is available under Details of Implementation Arrangements

<sup>8</sup> As of 31 January 2014.

more than 200 offices and subsidiaries in approximately 90 countries worldwide, including Myanmar.

## B. Development Impact, Outcome, and Outputs

8. **Impact.** The project will increase business and tourism, while preserving and protecting Myanmar's heritage.

9. **Outcome.** The project outcome is sustainable tourism and business growth in Yangon.

10. **Outputs.** The project outputs are approximately 4 hectares of integrated urban renewal development in central Yangon, and an energy-efficient district cooling system installed.

## C. Alignment with ADB Strategy and Operations

11. **Consistency with Strategy 2020 and the country strategy.** ADB assistance for the project is aligned with Strategy 2020, which supports environmentally sustainable, private sector-assisted development in meeting growing energy demand in the region and in addressing critical infrastructure shortages. Strategy 2020 also focuses support for livable and sustainable cities that reduce the carbon footprint, and support for low-income and fragile countries.<sup>9</sup> The assistance is aligned with the interim country partnership strategy, 2012–2014 as it supports environmentally sustainable development by integrating environmental considerations into projects for promoting green and climate-resilient growth.<sup>10</sup> The interim strategy also aims to accelerate economic growth; create income opportunities; and create a supportive environment for the private sector, in particular small and medium-sized enterprises.

12. **Consistency with the sector strategy.** The project is consistent with ADB's Energy Policy<sup>11</sup> and Urban Operational Plan, 2012–2020;<sup>12</sup> both emphasize environmental sustainability and private sector participation, including specific investments in district cooling. The project is consistent with (i) the Urban Development and Water Sector Assessment, Strategy, and Road Map,<sup>13</sup> which emphasizes modern wastewater treatment management; and (ii) the ADB-assisted Tourism Master Plan, 2013–2020, which includes preservation of heritage buildings.<sup>14</sup>

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## D. Implementation Arrangements

13. Table 3 summarizes the implementation arrangements:

**Table 3: Summary of Implementation Arrangements**

Aspects	Arrangements
Regulatory framework	The project will be developed under a 50+10+10 year BOT lease with MRT. As an MIC-approved project, it will confer certain rights and privileges to foreign investors and lenders.
Management	Project development, construction, and operation will be managed by the

<sup>9</sup> ADB. 2008. *Strategy 2020. The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

<sup>10</sup> ADB. 2012. *Interim Country Partnership Strategy: Myanmar, 2012–2014*. Manila.

<sup>11</sup> ADB. 2009. *Energy Policy*. Manila.

<sup>12</sup> ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila.

<sup>13</sup> ADB. 2013. *Myanmar Urban Development and Water Sector Assessment, Strategy, and Road Map*. Manila.

<sup>14</sup> Government of Myanmar, Ministry of Hotels and Tourism. 2013. *Myanmar Tourism Master Plan, 2013–2020*. Nay Pyi Taw.

	borrower, which is controlled by Yoma, FMI, Mitsubishi Estate, and Mitsubishi Corporation.
Implementation period	First half of 2014 to first half of 2021.
Construction arrangements	The sponsors will provide a completion guarantee for the construction. <sup>a</sup> Competitive bidding will be used to select the district cooling plant equipment.
Revenue structure	Most revenue will be generated from payments from office and retail leases, from occupancy of the hotel and serviced apartments, sales and purchases of residential units, and parking fees.
Operation and maintenance	Starwood Hotels and Resorts Worldwide (Starwood) will operate the hotel and serviced apartments under the Westin brand. The Hongkong and Shanghai Hotels will operate the residential units and heritage building under the Peninsula brand. The Yoma group will be responsible for operation, maintenance, marketing, and leasing of the office towers and retail podium; and the project company will manage operations of the district cooling plant.
Performance monitoring	The borrower will report key performance indicators, including output and outcome indicators.

BOT = build–operate–transfer, FMI = First Myanmar Investment, MIC = Myanmar Investment Commission, MRT = Ministry of Rail Transportation, Yoma = Yoma Strategic Holdings.

<sup>a</sup> The sponsors will provide a completion guarantee at a ratio of 2:1 between Yoma and FMI, and Mitsubishi Corporation and Mitsubishi Estate, for their respective shareholding proportions.

<sup>b</sup> Details of Construction Contractors

Sources: Asian Development Bank, International Finance Corporation, Mitsubishi Corporation and Mitsubishi Estate.

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### III. POLICY COMPLIANCE

#### A. Safeguards and Social Dimensions

21. The project is classified as category B for environment. The borrower has prepared an initial environmental examination to cover all aspects of the project following the ADB Safeguard Policy Statement (2009). The initial environmental examination includes an environmental and social management plan to adequately address potential impacts during construction and operation, such as noise, dust, water quality and quantity, solid and liquid waste, hazardous waste, exposure of workers to occupational health and safety hazards, and cultural heritage conservation. The borrower is developing internal risk management procedures and assigning a director of risk management and compliance to be responsible for overall environmental and social risk management. To minimize and mitigate potential impacts, the project will be designed, constructed, operated, and maintained in accordance with ADB's Safeguard Policy Statement requirements, the World Bank Group's general environmental, health, and safety guidelines, and national environment laws and regulations.

22. The project is classified as category C for involuntary resettlement and indigenous peoples. The 3.9-hectare project site is located in the city core of Yangon on land belonging to MRT. The site has been leased to the borrower since 1993, and the project is not expected to have involuntary resettlement and indigenous peoples impacts. The due diligence confirms that (i) no informal settlers or vendors use the project area, and (ii) the project area and surroundings have no record of settlements of ethnic groups or indigenous peoples. The existing structures on the site are (i) Myanmar Railway Building, (ii) FMI Centre, (iii) Grand Mee Ya Hta Executive Residence, (iv) Zawgyi House, and (v) two abandoned residential buildings. With the exception of Myanmar Railway Building, which will be architecturally restored and converted to a boutique hotel, the other buildings will be demolished. Grand Mee Ya Hta



Executive Residence was vacated in October 2013. FMI Centre (office and commercial complex) and Zawgyi House (restaurant) will be vacated in early 2016, after providing at least 6-month notice to existing tenants. The borrower engaged stakeholders in the surrounding communities during the project design. A grievance redress mechanism to address public complaints is in place. Consultations carried out as part of the initial environmental examination did not identify any outstanding grievances.

23. During construction, civil work contractors are expected to provide work opportunities for 2,500 local community residents. During operation, significant employment opportunities will be created for local residents in the offices and commercial establishments. In addition, about 900 staff, expected to be mostly local, will be employed in the hotels and serviced apartments. The project is classified as having some gender elements, and the borrower will work toward incorporating the following measures in the project: (i) prioritize hiring of women for 40% of the jobs created in hospitality and retail, and (ii) impart skill training programs to locally hired staff in hospitality areas with at least 40% participation of women. The borrower (and its contractors) commits to comply with the ADB Social Protection Strategy (2001) covering the internationally recognized core labor standards and national labor laws.

#### **B. Anticorruption Policy**

24. Myanmar is a jurisdiction with strategic anti-money laundering and combating the financing of terrorism deficiencies, and therefore the borrower was advised of ADB's AntiCorruption Policy (1998, as amended to date), and policy relating to the Combating of Money Laundering and the Financing of Terrorism (2003). Consistent with its commitment to governance, accountability, and transparency, ADB will require that the borrower institute, maintain, and comply with internal procedures and controls following international best practice standards for the purpose of preventing corruption and money-laundering activities and the financing of terrorism, and to covenant with ADB to refrain from engaging in such activities.

#### **C. Investment Limitations**

25. The proposed loan, equity investment, B loan, and PRG are within the medium-term, country, industry, group, and single-project exposure limits for nonsovereign investments.

#### **D. Assurances**

26. Consistent with the Agreement Establishing the Asian Development Bank, the Government of Myanmar will be requested to confirm that it has no objection to the proposed assistance to the borrower. ADB will enter into suitable finance and investment documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

#### IV. RECOMMENDATION

27. I am satisfied that the proposed loan, equity investment, B loan, and political risk guarantee would comply with the Articles of Agreement of the Asian Development Bank (ADB) and recommend that the Board approve

- (i) the loan of up to \$50 million,
- (ii) the equity investment of up to \$20 million,
- (iii) the B loan of up to \$30 million, and
- (iv) the political risk guarantee of up to \$20 million

for the Yangon Urban Renewal and District Cooling Project in Myanmar, from ADB's ordinary capital resources, with such terms and conditions as are substantially in accordance with those set forth in this report, and as may be reported to the Board.

Takehiko Nakao  
President

May 2014

## DESIGN AND MONITORING FRAMEWORK

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
<p><b>Impact</b> Increase in business and tourism activity in Myanmar, while preserving and protecting its heritage</p>	<p>Number of established offices of multinational and/or foreign companies in Yangon increased to 1,500 by 2025 (Baseline 2012: 529)</p> <p>International tourist arrivals to Myanmar increase to 5 million by 2025 (Baseline 2012: 1 million)</p> <p>International tourism receipts in Myanmar increase to more than \$10 billion by 2025 (baseline 2012: \$400 million)</p> <p>At least three other historic buildings preserved under the guidance of the Yangon Heritage Trust by 2025</p>	<p>Directorate of Investment and Company Registration and multilateral reporting</p> <p>Ministry of Hotels and Tourism and multilateral reporting</p> <p>Yangon Heritage Trust reporting</p>	<p><b>Assumption</b> Government support for tourism and travel facilitation is ongoing.</p> <p><b>Risk</b> Political, social, and economic situation in Myanmar worsens.</p>
<p><b>Outcome</b> Sustainable tourism and business growth in Yangon</p>	<p>International standard hotel rooms in Yangon increase to 6,000 by 2025 (Baseline 2012: 1,500 rooms)</p> <p>Grade A office space in Yangon increases to 200,000 m<sup>2</sup> by 2025 (Baseline 2012: 0m<sup>2</sup>)</p> <p>At least 350 full-time hospitality and 1,750 retail sector jobs created with 40% women</p> <p>Skill training programs provided to local staff (for jobs created in hospitality), with at least 40% participation of women</p> <p>CONFIDENTIAL INFORMATION DELETED</p> <p>Electricity avoidance averages 10,000 megawatt-hours per annum during the first 10 years of operation (2017–2027)</p> <p>Carbon dioxide equivalent</p>	<p>Ministry of Hotels and Tourism and multilateral reporting</p> <p>Industry reports</p> <p>Industry reports and multilateral reporting</p> <p>Development effectiveness monitoring reports and annual company operation reports</p>	<p><b>Assumption</b> Adequate support infrastructure, such as airports, roads, telecommunications, banking services, are developed.</p> <p><b>Risk</b> Evolving legal and regulatory framework does not support foreign investment.</p>

Design Summary	Performance Targets and/or Indicators with Baselines	Data Sources and/or Reporting Mechanisms	Assumptions and Risks
	emission avoidance averages 3,000 tons per annum, during the first 10 years of operation (2017–2027)		
<p><b>Outputs</b> 3.9 hectares of integrated urban renewal development in central Yangon</p> <p>An energy-efficient district cooling system</p>	<p>67,000 m<sup>2</sup> of office space, 35,000 m<sup>2</sup> of retail space, 82 residences, and an additional 250 hotel rooms, and 85 serviced apartments developed in Yangon by 2022</p> <p>At least 2,500 people (full-time equivalent) employed during construction</p> <p>CONFIDENTIAL INFORMATION DELETED</p> <p>Former headquarters of the British Burma Railway Company fully restored and preserved</p> <p>District cooling plant completed and operating</p>	<p>Company annual operations reports</p> <p>Company annual operations reports, sex-disaggregated employment data</p> <p>Development effectiveness monitoring reports and company annual operations reports</p>	<p><b>Assumption</b> The counterparties adhere to project agreements.</p> <p><b>Risks</b> Permits, licenses, and approvals are delayed. Rising costs and limited availability of materials impact construction.</p>
<p><b>Activities with Milestones</b></p> <p>1.1 Construction work in progress, as scheduled. 1.2 Loan agreement signed by first half of 2014. 1.3 Phase 1 completed by first half of 2018. 1.4 Phase 2 completed by first half of 2021.</p>			<p><b>Inputs</b> (without B Loans) <b>Loan</b> ADB: \$50 million <b>Equity:</b> ADB: \$16.7 million</p> <p>CONFIDENTIAL INFORMATION DELETED</p>

ADB = Asian Development Bank, IFC = International Finance Corporation, m<sup>2</sup> = square meter.  
Source: Asian Development Bank.

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