



Report and Recommendation of the President to the Board of Directors

Project Number: 47913-002
Loan Number: 3137
June 2016

Proposed Loans and Guarantee for Additional Financing Meeyahta Development Limited 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 1 June 2016)

Currency unit – kyat (MK)

MK1.00 = \$0.001
\$1.00 = MK1,185

ABBREVIATIONS

ADB	–	Asian Development Bank
FMI	–	First Myanmar Investment
IEE	–	initial environmental examination
IFC	–	International Finance Corporation
PRG	–	political risk guarantee
MRT	–	Ministry of Rail Transportation
NFA	–	net floor area

NOTE

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

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I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on (i) a proposed A-loan of up to \$35 million and (ii) a proposed political risk guarantee (PRG) of up to \$15 million to Meeyahta Development Limited for the additional financing of the Yangon Urban Renewal and District Cooling Project in Myanmar.¹ The report also describes a proposed B loan of up to \$5 million to Meeyahta for the additional financing of the Yangon Urban Renewal and District Cooling Project in Myanmar, and if the Board approves the proposed loan and guarantee, I, acting under the authority delegated to me by the Board, approve the B loan for the additional financing.²

II. THE PROJECT

A. Project Identification and Description

2. Myanmar is experiencing dynamic economic growth as it implements 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 since the country has become an appealing new destination for investment and sightseeing. However, the steady increase of international visitors and the surge in demand for hotel rooms, long-term accommodation, and office space are currently overwhelming Yangon, the country's largest commercial city and transit hub. Chronic underinvestment in tourism and business infrastructure has left the city with inadequate and insufficient working and living spaces, which inhibits 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.³

3. The current project comprises the revitalization of an emerging central business district in Yangon, including hotel, retail, office, and residential space; and a district cooling plant and network to serve the locality.⁴ It is being developed by Yoma Strategic Holdings, First Myanmar Investment (FMI), Mitsubishi Corporation, and Mitsubishi Estate. The Asian Development Bank (ADB) is providing loan and equity investment in parallel with the International Finance Corporation (IFC). The current project will help reduce the acute shortage of business, tourism, and residential infrastructure in Yangon, and enable commercial activity and the import of capital, skills, and technology that the country requires to transition to a modern economy.

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 current project includes 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

¹ Asian Development Bank (ADB). 2014. *Report and Recommendation of the President to the Board of Directors: Proposed Loans, Equity Investment, and Guarantee to the Republic of the Union of Myanmar for the Yangon Urban Renewal and District Cooling Project*. Manila.

² The revised design and monitoring framework is in Appendix 1.

³ McKinsey Global Institute. 2013. *Myanmar's moment: Unique opportunities, major challenges*. New York.

⁴ The overall development also 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. Although the restoration will not be part of the ADB or IFC financing, it will be a centerpiece to the overall development.

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.

5. The Board approved the current project on 26 June 2014 (footnote 1). On 9 June 2015, the ADB Investment Committee approved the extension of the Board approval validity period by 1 year (until 26 June 2016).

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B. Development Impact, Outcome, and Outputs

6. **Impact.** The overall project will increase business and tourism, while preserving and protecting Myanmar's heritage. Tourism is an important part of the Myanmar economy and provides immediate employment and income generation for the poor.

7. **Outcome.** The overall project outcome will be sustainable tourism and business growth in Yangon. The overall project will also raise tax revenues, improve foreign exchange earnings, create opportunities for small and medium-sized business, and increase the sourcing of local goods and services, all of which contributes to economic growth and poverty alleviation.

8. **Outputs.** The overall project outputs will be that 3.9 hectares of integrated urban renewal development in central Yangon is built and operating, and that an energy-efficient district cooling system is installed. The overall project will play an important role in supplying basic tourism and business infrastructure in Yangon, which will support productivity, job creation, and sustainable economic growth.

C. Alignment with ADB Strategy and Operations

9. **Consistency with Strategy 2020 and the country strategy.** ADB assistance for the current project is aligned with Strategy 2020, which supports environmentally sustainable, private-sector-assisted development to meet growing energy demand in the region and to overcome critical infrastructure shortages. Strategy 2020 also focuses support on livable and sustainable cities that reduce the carbon footprint, and on low-income and fragile countries.⁵ The assistance is aligned with ADB's interim country partnership strategy, 2012–2014 for Myanmar, which was extended to 2016 and supports environmentally sustainable development by integrating environmental considerations into projects for promoting green and climate-resilient growth.⁶ The interim strategy also aims to accelerate economic growth; create income opportunities; and create a supportive environment for the private sector, in particular for small and medium-sized enterprises.

10. **Consistency with the sector strategy.** The current project is consistent with ADB's Energy Policy and its Urban Operational Plan, 2012–2020,⁷ which both stress environmental sustainability and private sector participation, including specific investments in district cooling. The current project is consistent with (i) the Urban Development and Water Sector Assessment,

⁵ ADB. 2008. *Strategy 2020: The Long-Term Strategic Framework of the Asian Development Bank, 2008–2020*. Manila.

⁶ ADB. 2012. *Interim Country Partnership Strategy: Myanmar, 2012–2014*. Manila; and ADB. 2014. *Country Operations Business Plan: Myanmar, 2015–2017*. Manila.

⁷ ADB. 2009. *Energy Policy*. Manila; and ADB. 2013. *Urban Operational Plan, 2012–2020*. Manila.

Strategy, and Road Map,⁸ which emphasizes modern wastewater treatment management; and (ii) the ADB-assisted Tourism Master Plan, 2013–2020, which includes the preservation of heritage buildings.⁹

D. Project Cost and Financing Plan

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E. Implementation Arrangements

11. Table 4 summarizes the implementation arrangements.¹⁰

Table 4: Summary of Implementation Arrangements

Aspects	Arrangements
Regulatory framework	The overall project will be developed as a build–operate–transfer project under a master lease agreement with Myanmar Railways of the MRT, for a period of 50 years from 1 January 1998, which may be extended by the MIC pursuant to the Foreign Investment Law.
Management	The overall project development, construction, and operation will be managed by Meeyahta, which is controlled by Yoma, FMI, Mitsubishi Estate, and Mitsubishi Corporation.
Implementation period	CONFIDENTIAL INFORMATION DELETED
Construction arrangements	CONFIDENTIAL INFORMATION DELETED
Contractors	CONFIDENTIAL INFORMATION DELETED
Revenue structure	Revenue from the overall project will be generated from office and retail lease payments, hotel and serviced apartment occupancy payments, sales and purchases of residential units, and parking fees.
Operation and maintenance	CONFIDENTIAL INFORMATION DELETED
Performance monitoring	Meeyahta will report key performance indicators, including output and outcome indicators.

FMI = First Myanmar Investment, MIC = Myanmar Investment Commission, MRT = Ministry of Rail Transportation.

^a The sponsors will provide a completion guarantee at a ratio of 2:1 between Yoma and FMI, and Mitsubishi Corporation and Mitsubishi Estate.

Sources: Yoma Strategic Holdings, Mitsubishi Corporation, and Mitsubishi Estate.

F. Projected Financial and Economic Performance

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III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

12. ADB's additional financing includes (i) an A-loan of up to \$35 million;¹¹ (ii) a B-loan of up to \$5 million; and (iii) a PRG of up to \$15 million of principal, interest, and PRG fees.¹² ADB is

⁸ ADB. 2013. *Myanmar: Urban Development and Water Sector Assessment, Strategy, and Road Map*. Manila.

⁹ Government of Myanmar, Ministry of Hotels and Tourism. 2013. *Myanmar Tourism Master Plan, 2013–2020*. Nay Pyi Taw.

¹⁰ Details of Implementation Arrangements.

¹¹ May be substituted by a B-loan of up to \$35 million and/or PRG of up to \$35 million, if required.

¹² CONFIDENTIAL INFORMATION DELETED

playing a lead role in mobilizing commercial bank financing for the project, which will, if successful, increase the financing potential for undersupplied tourism and business infrastructure projects in Yangon and throughout the country.

B. Value Added by ADB Assistance

13. ADB assistance will be essential in reaching financial close, as local and international banks are unable to undertake projects of this scope and scale in Myanmar without support from multilateral development banks. In a country with limited financing options—owing to its long absence from international lending markets, lack of a track record, and nonexistence of local long-term financing—multilateral assistance for large-scale projects is indispensable.

14. ADB assistance will help reduce the acute shortage of business infrastructure in Yangon and revitalize the city's emerging central business district of Yangon, and help the city become more competitive and environmentally sustainable.

15. ADB assistance will help Myanmar capitalize on its untapped tourism potential, which can have a significant role in economic growth and poverty reduction through direct and indirect employment. Tourism is the most labor-intensive industry after agriculture, offering unskilled and semiskilled opportunities in urban and rural areas, as well as gender equality—40% to 50% of all tourism workers in Myanmar are women.

16. ADB assistance provides a timely opportunity to help institute environmental and social safeguards and best industry practices during early sector development. The project will adopt ADB environmental and social safeguard policies, setting a standard for subsequent projects. Many Asian cities have experienced rapid urban growth, albeit at a heavy cost: sprawl, pollution, and congestion. The overall project will incorporate sound practices and investments in energy efficiency and leapfrog technologies (such as district cooling plants) as well as modern wastewater treatment systems. Improving the quality of life and mitigating climate change will help bolster Yangon as a vibrant and livable city with sustainable commerce and tourism.

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C. Risks

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IV. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

17. In compliance with ADB's Safeguard Policy Statement (2009), the overall project is classified as category B for environment and category C for involuntary resettlement and indigenous peoples. The change in scope has limited impact on the safeguard categorization since the increase in floor area is achieved through more efficient use of space, and not from an increase in the structural footprint or project site. The potential environmental and social impacts of the overall project were identified and effective measures to avoid, minimize, mitigate, and compensate for the adverse impacts are incorporated in the safeguard reports and plans. The institutional capacity and commitment of Yoma, FMI, Mitsubishi Estate, Mitsubishi Corporation to manage the project's social and environmental impacts are deemed adequate.

18. The project has prepared an initial environmental examination to cover all aspects of the project following the Safeguard Policy Statement.¹³ The initial environmental examination includes an environmental and social management plan to adequately manage 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 project 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 current 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 environmental laws and regulations.

19. The 3.9-hectare project site is located in the city core of Yangon on land belonging to the MRT. The site has been leased to Mee Ya Hta International Hotel since 1993, and the overall project is not expected to have impacts on involuntary resettlement and indigenous peoples. Due diligence confirms that (i) no informal settlers or vendors use the project area, and (ii) the current 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 the Myanmar Railway Building, which will be architecturally restored and converted to a boutique hotel, the other buildings will be demolished. The Grand Mee Ya Hta Executive Residence was vacated in October 2013. The FMI Centre (an office and commercial complex) and Zawgyi House (a restaurant) will be vacated by 2017, after providing at least 6 months' notice to existing tenants. The project engaged stakeholders in the surrounding communities during the project design. A grievance redress mechanism to deal with public complaints is in place. Consultations carried out as part of the initial environmental examination did not identify any outstanding grievances.

20. During construction, civil works contractors are expected to provide work opportunities for 2,500 local community residents. During operation, significant employment 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.

21. Measures to benefit women or facilitate their involvement in construction and operation of the project were incorporated in the project design in accordance with ADB's Policy on Gender and Development (1998). The overall project is classified as having some gender elements, and Meeyahta 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) conduct skills training programs for locally hired staff in hospitality areas, with at least 40% of participants to be women. The project will comply with national labor laws and, pursuant to ADB's Social Protection Strategy (2001), will take measures to comply with the internationally recognized core labor standards.¹⁴ The borrower will report regularly to ADB on (i) its (and its contractors') compliance with such laws and (ii) the measures taken. Information disclosure and consultation with affected people will be conducted in accordance with ADB requirements.¹⁵

¹³ The sections on project description and implementation schedule in the Initial Environmental Examination (IEE) for the current project, dated February 2014, will be updated to reflect the overall project's NFA and implementation schedule. The environmental and social management plan, included as part of the IEE, is adequate to handle the potential environment and social impacts during construction and operation. In line with the disclosure requirements outlined in the Safeguard Policy Statement, the updated IEE will be disclosed on ADB's website.

¹⁴ ADB. 2003. *Social Protection*. Manila (adopted in 2001).

¹⁵ Summary Poverty Reduction and Social Strategy; Safeguards and Social Dimensions Summary.

B. Anticorruption Policy

22. Yoma, FMI, Mitsubishi Estate, Mitsubishi Corporation were advised of ADB's policy of implementing best international practice relating to combating corruption, money laundering, and the financing of terrorism. ADB will ensure that the investment documentation includes appropriate provisions prohibiting corruption, money laundering, and the financing of terrorism, and remedies for ADB in the event of noncompliance.

C. Investment Limitations

23. The proposed loans and PRG are within the medium-term, country, industry, group, and single-project exposure limits for nonsovereign investments.

D. Assurances

24. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),¹⁶ ADB will proceed with the proposed assistance upon establishing that the Government of Myanmar has no objection to the proposed assistance to Meeyahta. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the Board of Directors.

V. RECOMMENDATION

25. I am satisfied that the proposed 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 A-loan of up to \$35 million and (ii) the political risk guarantee of up to \$15 million to Meeyahta Development Limited for the additional financing of 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

29 June 2016

¹⁶ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

REVISED DESIGN AND MONITORING FRAMEWORK

<p>Impact the Project is Aligned with:</p> <p>A. Current project</p> <p>Business and tourism activity in Myanmar increased, while preserving and protecting its heritage (project defined)</p> <p>B. Overall project</p> <p>Unchanged</p>			
Results Chain	Performance Indicators with Targets and Baselines	Data Sources and/or Reporting Mechanisms	Risks
<p>Outcome (current project)</p> <p>Tourism sustained and business grown in Yangon</p>	<p>CONFIDENTIAL INFORMATION DELETED</p>	<p>a. Annual report by Ministry of Hotels and Tourism, and multilateral agency reporting</p> <p>b. Annual industry reports</p> <p>c–g. Annual development effectiveness monitoring report from borrower</p>	<p>Evolving legal and regulatory framework does not support foreign investment.</p> <p>Political, social, and economic situation in Myanmar worsens.</p>

Results Chain	Performance Indicators with Targets and Baselines	Data Sources and/or Reporting Mechanisms	Risks
<p>Outcome (overall project) Unchanged</p>			
<p>Outputs (current project)</p> <p>1. 3.9 hectares of integrated urban renewal development in central Yangon built and operating</p> <p>2. An energy-efficient district cooling system installed</p> <p>Outputs (overall project) Unchanged</p>	<p>CONFIDENTIAL INFORMATION DELETED</p>	<p>1–2. Development effectiveness monitoring reports and company reports of annual operations</p>	<p>Permits, licenses, and approvals are delayed.</p> <p>Rising costs and limited availability of materials impact construction.</p>
<p>Key Activities with Milestones</p>			

1. Urban renewal development built and operating

- 1.1 Construction work in progress, as scheduled.
- 1.2 Loan agreement signed by the third quarter of 2016.
- 1.3 **CONFIDENTIAL INFORMATION DELETED**

2. District cooling system built and operating

- 2.1 Construction work in progress, as scheduled.
- 2.2 Loan agreement signed by the third quarter 2016.
- 2.3 **CONFIDENTIAL INFORMATION DELETED**

Inputs

ADB			
A Loan	B Loan	PRG	Equity
\$50 million (current)	\$30 million (current)	\$20 million (current)	\$20 million (current)
\$35 million (additional)	\$5 million (additional)	\$15 million (additional)	\$0 million (additional)
\$85 million (overall)	\$35 million (overall)	\$35 million (overall)	\$20 million (overall)

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Assumptions for Partner Financing

Not applicable.

ADB = Asian Development Bank, m² = square meter, NA = not applicable, PRG = political risk guarantee.

^aThe emission factor for grid electricity is estimated at 0.294, and for diesel generation at 0.628.

Source: Asian Development Bank.