



Report and Recommendation of the President to the Board of Directors

Project Number: 49470-001
October 2016

Proposed Loan Irrawaddy Towers Asset Holding Pte Ltd and Irrawaddy Green Towers Ltd Telecommunication Towers Infrastructure 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 in accordance with paragraph 97 (v) and (viii) of ADB's Public Communications Policy 2011.

Asian Development Bank

CURRENCY EQUIVALENTS

(as of 1 September 2016)

| | | |
|---------------|---|-------------|
| Currency unit | – | kyat/s (MK) |
| MK1.00 | = | \$0.0008 |
| \$1.00 | = | MK1,192 |

ABBREVIATIONS

| | | |
|----------------|---|--|
| ADB | – | Asian Development Bank |
| ICT | – | information and communication technology |
| IGT | – | Irrawaddy Green Towers |
| ITAH | – | Irrawaddy Towers Asset Holding |
| m ² | – | square meter |
| QHSE | – | quality, health, safety, and environment |
| TA | – | technical assistance |

NOTES

- (i) The fiscal year (FY) of Irrawaddy Towers Asset Holding and Irrawaddy Green Towers ends on 31 March.
- (ii) In this report, "\$" refers to US dollars

| | |
|-------------------------|---|
| Vice-President | D. Gupta, Private Sector and Cofinancing Operations |
| Director General | M. Barrow, Private Sector Operations Department (PSOD) |
| Director | C. Thieme, Officer-in-Charge, Infrastructure Finance Division 2, PSOD |
| Team leader | W. Hong, Investment Specialist, PSOD |
| Project advisor | D. Wiedmer, Principal Investment Specialist, PSOD |
| Team members | M. Greenhow, Principal Counsel, Office of the General Counsel |
| | R. Lockhart, Investment Specialist, PSOD |
| | K. Paocharoen, Senior Investment Officer, PSOD |
| | A. Porras, Senior Safeguards Officer, PSOD |
| | V. Ramasubramanian, Senior Safeguards Specialist, PSOD |
| | K. Taniguchi, Senior Economist, PSOD |
| | C. Tienzo, Project Analyst, PSOD |

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PROJECT AT A GLANCE

I. THE PROPOSAL

1. I submit for your approval the following report and recommendation on a proposed loan of up to \$50 million to Irrawaddy Towers Asset Holding (ITAH) and Irrawaddy Green Towers (IGT) for the Telecommunication Towers Infrastructure Project in Myanmar.¹

II. THE PROJECT

A. Project Identification and Description

1. Project Identification

2. Universal access to information and communication technology (ICT) is essential in fostering a country's socioeconomic growth by improving business opportunities and trade facilitation; reducing urban-rural and gender gaps; and enhancing the delivery of public services such as health, education, and security. After decades of isolation, Myanmar remains one of the poorest and least-connected countries in Southeast Asia. The lack of investment in ICT infrastructure is apparent in the low penetration level of telecommunication services. Because of the lack of investment and competition, the cost of having a mobile connection was prohibitively expensive for the average citizen. Further, although the largest share of the population lives in rural areas, the coverage was biased towards larger cities. A digital gender gap also exists in terms of access and usage of mobile phones and internet services. This disparity denies women the significant benefits and opportunities from participating in today's global information society. As part of its wide-ranging reforms, the Government of Myanmar has prioritized the availability, affordability, and quality of basic ICT infrastructure throughout the country to support inclusive socioeconomic growth and poverty reduction.

3. With assistance provided by the World Bank, the government has embarked on significant ICT sector reforms, including organizational restructuring of the incumbent operator and regulator, introduction of competition, and opening up of the sector to foreign investment. In February 2014, following one of the most competitive international tenders with more than 90 applicants, the government awarded telecommunication operating and associated spectrum licenses to Qatar's Ooredoo Group and Norway's Telenor Group. Since then, the telecommunication sector in Myanmar has undergone a transformation.

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4. Myanmar has four major players in the tower market.

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IGT is the market leader, having commissioned more than 2,000 towers by the end of the first quarter of 2016. IGT is also the first independent tower company to receive orders from both international operators.

5. The Asian Development Bank (ADB) and the International Finance Corporation identified the opportunity to provide financial assistance to help IGT roll out up to 5,000 towers

¹ The design and monitoring framework is in Appendix 1.

nationwide. These towers are essential in enabling telecommunication operators to provide a full range of mobile and data services in Myanmar.

2. Project Design

6. The project consists of rollout of up to 5,000 towers nationwide that are essential in enabling telecommunication operators to provide a full range of mobile and data services in Myanmar.

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By supporting IGT's rollout of tower infrastructure, the project will help expand telecommunication services available to the public at affordable prices in both rural and urban areas of Myanmar.

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3. The Borrowers and Sponsors

7. The borrowers will be ITAH, a company incorporated under the laws of Singapore, and its subsidiary IGT, a company incorporated under the laws of Myanmar, on a joint and several basis. ITAH is a joint venture between M1 Group Limited and Alcazar Projects Limited; ITAH in turn owns 100% of IGT. IGT is the largest tower company in Myanmar with over 2,000 towers commissioned by the end of the first quarter of 2016.

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8. M1 Group Limited, registered in Dubai International Financial Center, is a holding company with interests in telecommunication, real estate, aviation, retail, energy, and transportation.

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9. Alcazar Projects Limited, registered in the Cayman Islands and wholly owned by the family of Maroun Semaan, was established to develop and invest in the tower business in Myanmar.

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B. Development Impact, Outcome, and Output

10. **Impact.** The impact of the project will facilitate inclusive growth and poverty reduction through the development of required ICT infrastructure in Myanmar. The project will provide wider coverage and improve connectivity nationwide to help boost Myanmar's competitiveness and broaden access to opportunities and services. Scaling up investments in telecommunication infrastructure will (i) improve access to domestic and regional markets, (ii) attract private investment, (iii) reduce urban-rural development gaps, and (iv) help Myanmar reap the full potential gains from regional connectivity and integration.

11. **Outcome.** The outcome will be increased private sector provision of affordable mobile telecommunication services in Myanmar.

12. **Output.** The output will be the successful rollout of up to 5,000 telecommunication towers nationwide in Myanmar.

C. Alignment with ADB Strategy and Operations

13. **Consistency with Strategy 2020.** ADB's assistance for the project is aligned with ADB's Midterm Review of Strategy 2020.² The review reaffirmed ADB's support under Strategy 2020 for infrastructure as one of the five core areas to improve and maximize development impact. The midterm review also supported a larger role for private sector financing of infrastructure, investment in communication connectivity, and inclusive growth, especially for rural areas.

14. **Consistency with country strategy.** The project is aligned with ADB's interim country partnership strategy for Myanmar, 2012–2014, which has been extended through to 2016, and ADB's country operations business plan, 2016–2018. The project (i) addresses the critical shortage of connectivity, promotes access to markets and basic social services, (ii) improves rural infrastructure to boost productivity and incomes, (iii) lowers transaction costs, (iv) enhances opportunities for domestic and cross-border trade and investment, and (v) improves access to reliable and sustainable utility services.³

D. Project Cost and Financing Plan

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E. Implementation Arrangements

22. Table 5 summarizes the implementation arrangements.⁴

Table 5: Summary of Implementation Arrangements

| Aspects | Arrangements |
|----------------------|--|
| Regulatory framework | A new Telecommunication Law was passed in October 2013, which fulfills the basic elements of a liberalized telecommunication regulatory framework set out by the World Trade Organization. The Ministry of Transport and Communications has corporatized the state-owned telecommunication operator, Myanma Posts and Telecommunications, into a commercial entity. A fourth telecommunication operator license was awarded in March 2016 to a joint venture between 12 local entities and Viettel, a telecommunication operator from Viet Nam. Viettel will own up to 49% of the joint venture. |
| Management | The project is managed by a joint venture between M1 Group and Alcazar Projects. IGT has a track record of successful operation in Myanmar with more than 2,000 towers commissioned by the end of the first quarter of 2016, becoming the largest tower company in the country. CONFIDENTIAL INFORMATION DELETED |
| Implementation | CONFIDENTIAL INFORMATION DELETED |

² ADB. 2014. *Midterm Review of Strategy 2020: Meeting the Challenges of a Transforming Asia and Pacific*. Manila.

³ ADB. 2012. *Interim Country Partnership Strategy: Myanmar, 2012–2014*. Manila; and ADB. 2015. *Country Operations Business Plan, 2016–2018*. Manila.

⁴ Details of Implementation Arrangements (accessible from the list of linked documents in Appendix 2).

| Aspects | Arrangements |
|-------------------------|--|
| period | |
| Tower rollout | <p>The project involves the deployment of up to 5,000 towers across the second-largest country in Southeast Asia by land size. Construction of telecommunication towers consists of three main parts: civil works, tower infrastructure, and power solutions.</p> <p>CONFIDENTIAL INFORMATION DELETED</p> <p>In commissioning more than 2,000 towers by the end of the first quarter of 2016, IGT built up a strong network of suppliers across the value chain that will enable it to roll out new towers rapidly in a cost-effective manner.</p> |
| Operations arrangements | |
| Revenue structure | CONFIDENTIAL INFORMATION DELETED |
| Major cost structure | <p>Major costs include O&M costs related to maintenance and repair of the towers, fuel delivery, and site leases.</p> <p>CONFIDENTIAL INFORMATION DELETED</p> |
| Performance monitoring | The borrowers will submit quarterly unaudited financial statements and annual audited financial statements on a consolidated basis. |

IGT = Irrawaddy Green Towers, O&M = operation and maintenance.

Sources: Asian Development Bank and Irrawaddy Green Towers.

F. Projected Financial and Economic Performance

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III. THE PROPOSED ADB ASSISTANCE

A. The Assistance

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B. Value Added by ADB Assistance

25. ADB's assistance will support the government's reforms and the country's overall transformation into a more liberalized economy by providing financial assistance to the country's leading tower company to roll out essential infrastructure. Multilateral support is needed because of the capital intensive nature of constructing telecommunication towers and the lack of international banks willing to lend into Myanmar.

26. ADB's substantial participation will have strong demonstration impact to multinational and international financiers that infrastructure investments led by the private sector can be undertaken successfully and sustained in Myanmar in sectors that implement sound legal and regulatory frameworks and/or are founded on the principles of transparency and market competition, and will catalyze private sector investment into the telecommunication sector in Myanmar.

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27. Through the administration of technical assistance Renewable Energy for Nationwide Telecommunications Project, ADB will provide guidance on the many challenges of telecommunication tower rollout in Myanmar, such as electricity shortages.⁵ This will help tower companies and other industry stakeholders reduce reliance on diesel generation by adopting renewable energy technology, and strengthen environmental and social regulation through application of ADB's Safeguard Policy Statement (2009) and promotion of best practices.

C. Risks

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IV. POLICY COMPLIANCE

A. Safeguards and Social Dimensions

33. The project is classified category B for the environment and category C for involuntary resettlement and indigenous peoples impacts, pursuant to ADB's Safeguard Policy Statement. The potential environmental and social impacts of the borrowers' tower rollout have been identified and effective measures to avoid, minimize, mitigate, and compensate for the adverse impacts will be incorporated in the environmental and social management system.

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34. IGT applies environmental and social site selection criteria to avoid ecologically sensitive habitats, legally protected areas, cultural heritage sites, and lands with traditional or customary rights. All necessary government permits and approvals are secured before tower erection, accompanied by neighbors' consent and a letter of support from the community as proof of social acceptability. Information disclosure and consultations will be carried out in accordance with ADB's Safeguard Policy Statement requirements.

35. Involuntary resettlement and land acquisition impacts are not triggered as all sites for IGT's facilities will be on leased lands, and all negotiations for the leasing of private lands are done on commercially acceptable terms. Although Myanmar has various ethnic groups across the country, the construction and operation of the telecommunication towers are not expected to result in the transformation, encroachment, or degradation of indigenous community lands.

36. IGT's human resources policy and procedures contain nondiscrimination and equal opportunity conditions to avoid bias based on gender, health, disability, race, or religion. Compensation, disciplinary, and grievance procedures for IGT's employees are also included. IGT requires its contractors to comply with national labor laws and prevent the use of underage labor by construction contractors and their subcontractors. The environmental and social compliance audit recommends the development of procedures to monitor work practices of IGT and its contractors, consistent with the requirements of ADB's Social Protection Strategy.⁶

⁵ ADB. 2015. *Technical Assistance to the Republic of the Union of Myanmar for the Renewable Energy for Nationwide Telecommunications Project*. Manila.

⁶ ADB. 2003. *Social Protection Strategy*. Manila (adopted in 2001).

B. Anticorruption Policy

37. ITAH and IGT 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

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D. Assurances

39. Consistent with the Agreement Establishing the Asian Development Bank (the Charter),⁷ ADB will proceed with the proposed assistance upon establishing that the Government of Myanmar has no objection to the proposed assistance to ITAH and IGT. ADB will enter into suitable finance documentation, in form and substance satisfactory to ADB, following approval of the proposed assistance by the ADB Board of Directors.

V. RECOMMENDATION

40. I am satisfied that the proposed loan would comply with the Articles of Agreement of the Asian Development Bank (ADB) and, acting in the absence of the President, under the provisions of Article 35.1 of the Articles of Agreement of ADB, I recommend that the Board approve the loan of up to \$50,000,000 to Irrawaddy Towers Asset Holding and Irrawaddy Green Towers for the Telecommunication Towers Infrastructure 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.

Stephen P. Groff
Vice-President

6 October 2016

⁷ ADB. 1966. *Agreement Establishing the Asian Development Bank*. Manila.

DESIGN AND MONITORING FRAMEWORK

| Impact the Project is Aligned With | | | |
|--|--|--|---|
| Inclusive growth and poverty reduction facilitated through development of required information and communication technology infrastructure in Myanmar (Government of Myanmar, 2013) ^a | | | |
| Results Chain | Performance Indicators with Targets and Baselines | Data Sources and Reporting Mechanisms | Risks |
| Outcome Private sector provision of affordable mobile telecommunication services increased | CONFIDENTIAL INFORMATION DELETED | a.–c. ADB's annual development effectiveness monitoring reports | Delay in rollout because of adverse macroeconomic or geopolitical risks |
| Output Up to 5,000 telecommunication towers rolled out nationwide | CONFIDENTIAL INFORMATION DELETED | 1a.–c. ADB's annual development effectiveness monitoring reports | Underdeveloped transport infrastructure, port congestion, monsoon rains, land acquisition through leasing, and lack of government capacity for processing permits and registrations |
| Key Activities with Milestones 1. Rollout up to 5,000 telecommunication towers nationwide CONFIDENTIAL INFORMATION DELETED | | | |
| Inputs Asian Development Bank (senior loan): \$50.00 million CONFIDENTIAL INFORMATION DELETED | | | |
| Assumptions for Partner Financing Not applicable | | | |

ADB = Asian Development Bank, FMO = Nederlandse Financierings-Maatschappij voor Ontwikkelingslanden N.V (Netherlands), Q = quarter.

^a Ministry of Transport and Communications. 2013. *Information Memorandum (Telecommunications Operator Tender Evaluation and Selection Committee)*. Nay Pyi Taw.

Source: Asian Development Bank.

LIST OF LINKED DOCUMENTS

<http://www.adb.org/Documents/RRPs/?id=49470-001-4>

1. Sector Overview
2. Details of Implementation Arrangements
3. Contribution to the ADB Results Framework
4. Financial Analysis
5. Economic Analysis
6. Country Economic Indicators
7. Summary Poverty Reduction and Social Strategy
8. Safeguards and Social Dimensions Summary
9. Findings of the Corporate Safeguards Audit: Environmental and Social Management System Arrangement