Myanmar’s Myingyan public-private partnership gas power plant
Pitfalls of private sector involvement

The Myingyan gas power plant in Myanmar is a public-private partnership (PPP) financed by a consortium of multilateral development banks and commercial lenders. It is Myanmar’s first PPP in the energy sector and has had several issues, including lack of transparency, consultation and accountability, and social and environmental impacts.

The systems used during the project development phase did not adequately consider how to ensure that social and environmental benefits for local communities are prioritised alongside the economic fulfilment that the private investors in the project are reaping.

The project illustrates the risks of non-transparent PPPs for ensuring government accountability to citizens and residents, and the pitfalls that can arise from private sector involvement in projects that are meant to prioritise the public good. Furthermore, it is a clear reminder that public development banks should be making sure they implement good governance and responsible finance standards.

Project details

The Myingyan Power Plant is a 225-megawatt gas-fired power plant in the Myingyan district of Mandalay (Myanmar), near the Ayeyarwady River. It provides power for the national grid in the form of electricity generated from gas, and it is the first internationally tendered power project in Myanmar. As of 2019, natural gas accounted for approximately 2.28 per cent of generated electricity in Myanmar, making it Myanmar’s largest power plant.

The project is implemented by Sembcorp Myingyan Power Company Limited, which is a subsidiary of the Singaporean company Sembcorp, and is also the Special Purpose Vehicle (SPV) for the project – i.e. a separate legal entity created to manage the project. Full commercial operation of the plant began in October 2018. The power plant is funded by the World Bank’s International Finance Corporation (IFC), the Asian Development Bank (ADB), the Asian Infrastructure Investment Bank (AIIB) and commercial lenders (see Table 1).

As a direct response to the Myanmar military coup, on 1 February 2021 the World Bank Group announced it had put a temporary hold on disbursements on its operations in Myanmar. In mid-February, Sembcorp announced that it has put a planned industrial park on hold, but the Myingyan plant continues to operate.

Financial flows

The Myingyan Power Plant is a project with a total of US$ 315 million in investments. The net book value of the facility was US$ 57 million as of 31 December 2020; with US$ 230 million of the project’s loan currently outstanding and backed by a corporate guarantee issued by Sembcorp Utilities (a wholly-owned subsidiary of Sembcorp). The project is funded entirely through private finance, the majority of which comes from loans from international financial institutions (IFIs). There was no direct or indirect support from the Myanmar government.

The debt and equity political risk coverage of the project is provided by the World Bank’s Multilateral Investment Guarantee Agency (MIGA) and ADB. This coverage includes equity and shareholder loan investments from Sembcorp Utilities and a non-shareholder loan from commercial lenders Clifford Capital, DBS Bank, DZ Bank, and Overseas-Chinese Banking, totalling US$ 154.1 million. These
investors “applied for MiGA guarantees of up to US$250.0 million for a period of up to 20 years against the risks of transfer restriction, expropriation, war and civil disturbance, and breach of contract”, which were provided.\footnote{The estimated debt equity ratio is 80:20.} In 2014, the IFC signed a Financial Advisory Services Agreement with the Ministry of Electric Power (MOEP), therefore making it the appointed lead transaction advisor for tenders for the project. The IFC’s additional advisory role in this project was supported by DevCo, which is part of the Private Infrastructure Development Group (PIDG), funded by the former UK Department for International Development (now the Foreign Commonwealth & Development Office, FCDO).

Prior to the project, Myanmar had no framework for its Ministry of Finance to provide guarantees. Therefore, a Build, Operate and Transfer (BOT) agreement providing a guarantee on behalf of MOEP for the project’s private sector partners was signed in January 2017. A Power Purchase Agreement (PPA) between the project’s SPV and MOEP was signed in 2016. The Agreement was drawn up by the IFC and Allen & Overy, based on a template developed by the ADB. The IFC views this agreement as a template upon which to base future power projects in Myanmar\footnote{The project became the IFC’s award-winning energy project: 2018 Asia-Pacific Deal of the Year (Myingyan IPP, Myanmar).}. The project became the IFC’s award-winning energy project: 2018 Asia-Pacific Deal of the Year (Myingyan IPP, Myanmar).\footnote{This is Myanmar’s first PPP in the energy sector. However, at the time of writing in March 2021, the PPA is not publicly accessible, despite numerous requests for information from local and international civil society – both to the public bank backers of the project and the Myanmar government and project developers.}

Under the PPA, Sembcorp Myingyan Power will supply power to MOEP for 22 years, after which the plant will transfer to government control. During this period, the MOEP will pay Sembcorp a tariff for the electricity that is supplied to Myanmar’s electricity grid. Information on the tariff paid is not publicly available, and so the actual cost of the project (including tariff fees) is not known. This is significant, as it is not uncommon for a PPA to include a clause that obliges a public sector purchaser e.g. a government, to buy a minimum amount of power from a plant\footnote{Under the PPA, Sembcorp Myingyan Power will supply power to MOEP for 22 years, after which the plant will transfer to government control. During this period, the MOEP will pay Sembcorp a tariff for the electricity that is supplied to Myanmar’s electricity grid. Information on the tariff paid is not publicly available, and so the actual cost of the project (including tariff fees) is not known. This is significant, as it is not uncommon for a PPA to include a clause that obliges a public sector purchaser e.g. a government, to buy a minimum amount of power from a plant.}, in addition to the unit rate, irrespective of demand (e.g. power drawn from a power grid for use).

When Bank Information Center (BIC) Europe\footnote{When Bank Information Center (BIC) Europe submitted an information request to the AIIB, the response stated that the “terms of the PPA cannot be disclosed because the information is covered by the non-disclosure obligations under the financing documents between the borrower and participating lenders, including the AIIB. Thus, this information is classified as "strictly confidential"."} submitted an information request to the AIIB, the response stated that the “terms of the PPA cannot be disclosed because the information is covered by the non-disclosure obligations under the financing documents between the borrower and participating lenders, including the AIIB. Thus, this information is classified as “strictly confidential”.”. Considering that the IFC wants to draw on this PPA as a template for future power projects in Myanmar, it is especially worrying that transparency and governance are not at the heart of this project’s development and implementation. This project is the first PPP and first private sector project from the AIIB, and therefore it is troubling that both the IFC and the AIIB are keeping details of an agreement that seriously affects the lives of Myanmar’s citizens and residents secret. Making the details of this agreement transparent would act as an example to clients, financial intermediaries, project partners and public development banks to follow.

The legal framework

Myanmar has no common PPP law or framework, although there are guidelines for unsolicited PPP proposals made by the private sector to government entities\footnote{Myanmar has also been given international technical assistance to support PPP policy development. This has not stopped Myanmar from implementing PPPs in three sectors: namely, the energy, telecommunications and transport sectors. Moreover, a PPP ‘Project Bank’ was created by the Myanmar government, which aims to ensure “that Government plans for Project development and implementation are predictable and transparent, and are employed as effectively as possible to achieve national development objectives.” The Project Bank’s creation was announced in November 2018, in addition to the creation of a centralised government unit to supervise PPP projects.}. The creation of this Project Bank demonstrates that Myanmar is embarking on a new level of transparency, especially as it is an official database of priority projects, providing information on project finances and PPPs. However, with the current coup in Myanmar (2021) it remains to be seen how or if these measures on increased transparency will be carried out.

This Project Bank is also meant to contribute to the Myanmar Sustainable Development Plan\footnote{The Project Bank’s creation was announced in November 2018, in addition to the creation of a centralised government unit to supervise PPP projects.}. However, an evaluation by Recourse and NGO Forum on ADB states that the Project Bank’s activities and operations are predominantly focused on facilitating PPP investments, and providing information to private investors and government agencies. Information on tariffs, PPAs and PPP contracts will not be published. This is a missed opportunity to ensure government accountability to the citizens and residents of Myanmar.

Fiscal impact

There was a big increase in electricity tariffs for consumers, a year after electricity from natural gas began to be generated and distributed in Myanmar. This was the first increase in
five years, and begs the question, is this project in line with Sustainable Development Goal 7 (SDG7) on affordable and clean energy? Figures from the then Ministry of Planning and Energy (MOEE – now MOEP)\(^{25}\) show that the cost of generating and distributing electricity produced from natural gas in Myanmar was K178 per unit (US$ 0.12), compared to electricity from hydropower K89 per unit (US$ 0.06).

Figures from the Ministry of Planning and Finance show that, as a result of supplying electricity at a much lower cost during the fiscal year of 2017-18, the government made a loss of K507 billion (US$ 350 million) when supplying electricity to the public. For 2018-19, that figure rose to K630 billion (US$ 437 million)\(^{25}\). A clear conclusion is that, as a result of installing and using electricity from natural gas, Myanmar’s debt levels have risen, putting in jeopardy their aspirations to invest more in the energy sector, and to achieve SDG7.

Without access to the original PPA, it is difficult to make any causal links between the plant’s electricity from natural gas production costs and the fiscal impacts of natural gas production and distribution on Myanmar. This is another reason why it is so crucial for public-private partnerships/agreements to be made publicly available, accessible and written in the language of the concerned communities.

**Legal dispute**

Two years into the plant’s construction, Singaporean company Sembcorp and the Myanmar company MMID Utilities Pte Limited that lead the PPP partnership became entangled in a legal dispute over finances and the right to be listed in the PPA. MMID Utilities filed a civil suit against Sembcorp, to stop MMID Utilities’ name from being removed from the project’s agreements, including the PPA\(^{26}\). Sembcorp stated that MMID Utilities had not provided its share of the equity to the project\(^{27}\). Such a legal dispute threatens the economic viability of the project.

In 2018, the AIIB confirmed that “Sembcorp currently owns 100% of Sembcorp Myingyan Power Co. Ltd. (SMPC)"\(^{28}\). Under Myanmar law (Notification 49/2014), a foreign investor may only own up to 80 per cent in energy generation projects, and must take on a local partner\(^{29}\). There is no public information on the ramifications of Sembcorp being the sole owner of Myingyan Power Plant. Disturbingly, Sembcorp threatened a local journalist who wanted to cover the legal dispute with contempt of court\(^{30}\). It is not clear what this means in terms of total project costs, and by extension any public debt implications, or passing costs on to consumers. One of the key asks from local communities impacted by the project is for the project to provide positive social and economic opportunities.

**Environmental impact**

Local communities have shown broad support for the project and in general have not opposed it. This is mainly because the project was meant to be a milestone in a longer journey to address Myanmar’s power needs. Affordable and clean energy is SDG 7 and Myanmar, like many developing countries, is working to achieve this goal. However, local communities do have some concerns. Many of the concerns that were initially shared by local communities relate to their ability to maintain their livelihoods\(^{31}\). For instance, the project’s cooling plant’s wastewater pipeline goes through farming land that is used for agriculture, and ends in a river used for fishing. Other concerns include excavated soil that was dumped on farm land; employment opportunities; and environmental impacts from construction and pipelines buried on private land. The IFC is the lead financier of this project, and so their social and environmental standards were applied to the project. This includes carrying out an Environmental and Social Impact Assessment (ESIA) and Management Plan (ESMP). Recent project reports (2020) from the ADB show that a lot of these concerns have now been resolved\(^{32}\), however it is useful to reflect on some of these concerns.

The local community was also very concerned about the environmental and social impacts on the Ayeyarwady river. Significantly, the project is designed to take more than 400 cubic meters of water per hour from the Ayeyarwady River\(^{33}\). That is a staggering amount in a region that is referred to as a ‘Dry Zone’ and “the most susceptible to drought in Myanmar”\(^{34}\), in the project’s own ESIA. Such large volumes of water-take led to community concerns over irrigation, groundwater and water supply and agriculture. Concerns were also raised regarding the higher temperature of the wastewater discharged, compared to the temperature of the river. The project’s ESIA states that the wastewater discharge would be at a continuous rate of 70.5 m³/hr\(^{35}\). Research shows that such thermal pollution affects water quality and so could affect ecosystems, fish and organisms that are not used to this higher water temperature\(^{36}\). Since the plant has come into operation, environmental and social monitoring of the Ayeyarwady River (2020 report) has shown that “[s]ome wastewater quality parameters were not meeting the discharge standards”\(^{37}\) but that the significance of this is minor. Some of these monitoring events were conducted in the presence of villagers.

There were additional concerns on the wastewater discharge route. The original project maps\(^{38}\) and the 2015 ESIA for the project\(^{39}\) both showed that the location for the discharge would be an existing irrigation canal. However, once construction began, the wastewater pipeline was re-routed to lead into the Ayeyarwady river despite the environmental concerns raised by local residents\(^{40}\).
Consequently, Sembcorp’s investors requested new quantitative modelling to account for the route change\(^4\), and a new Thermal Discharge Modelling (TDM) study was carried out as part of a new ESIA\(^2\). However, key dimensions and characteristics used for the new TDM came from Sembcorp instead of from an independent assessment and some data from the baseline chapter of the ESIA was used\(^3\). It is not clear why the data came from Sembcorp. Ultimately, the project consultant’s conclusions were that the discharge water was within IFC standards\(^4\).

Despite all of this, some positive steps have been made. Including steps to address land rights concerns and land acquisition. Landowners who were impacted by the water pipeline route have also been compensated by the government of Myanmar and Sembcorp, and loss of crops was also compensated.

### Public consultation and community demands

The project’s documents state that ‘stakeholders’ were consulted in July, August and September 2015 via six focus groups held across six villages in the project area, and that 300 questionnaires and household surveys were carried out\(^5\). However, not all relevant communities were included in the ESIA assessing impacts on local communities or involved in consultation processes. Fishing communities downstream of the pipeline were not consulted or addressed.

Moreover, whilst project documentation shows that consultations and community meetings were organised by the project’s developers, interviews carried out with local communities reveal that these consultations failed to provide significant relevant information. For instance, there was no explanation of the safeguard policies or performance standards of the IFC, ADB or AIIB, or about relevant accountability mechanisms. Additionally, local communities shared\(^6\) that there was a general lack of information on the project or the consultations and stated that they were unclear about the project’s impacts on their livelihoods and lives.

Another indication of poor public consultation etiquette is that the proposal for the AIIB to contribute funding towards the project was only made public five days before the Board approved it\(^7\). This was insufficient time for civil society to provide feedback on this funding proposal, the project and what it meant for their communities. The reason for this short period between the proposal publication and the Board meeting to approve it was in part due to the fact that, at the time of the project, the AIIB – unlike some other IFIs – followed the practice of not releasing agendas in advance of Board meetings and had no time bound information disclosure requirements.

Recourse and NGO Forum on ADB published research\(^8\) that included a set of demands shared by local communities. These show that affected communities want the project to provide social benefits, including access to affordable and reliable electricity, and that project impacts on the local environment should be minimised. For many in these communities, livelihoods depend on their local environment for fishing and farming.

### Concluding remarks

Overall, this case study shows that the systems used during the project development phase do not adequately consider how to ensure that social and environmental benefits for local communities are prioritised alongside the economic fulfilment that the private investors in the project are reaping. It also highlights the risks of non-transparent PPPs for ensuring government accountability to citizens and residents, and the pitfalls that can arise from private sector involvement in projects that are meant to prioritise the public good.

Considering that the IFC wants to use this PPA as a template to base future power projects in Myanmar on, it is especially worrying that transparency and governance are not at the heart of this project’s development and implementation. Additionally, both the IFC and ADB are signalling that they are fine with the details of an Agreement that affects the lives of Myanmar’s citizens and residents being kept private. Such institutions should be implementing global economic good governance and responsible finance standards. Doing so would demonstrate leadership in transparency for its clients, financial intermediaries, project partners and for other public development banks to follow.
Endnotes


