THE ROLE OF EQUATOR PRINCIPLES BANKS IN THE MYANMAR CONTEXT

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WHO ARE THE EQUATOR PRINCIPLES BANKS?

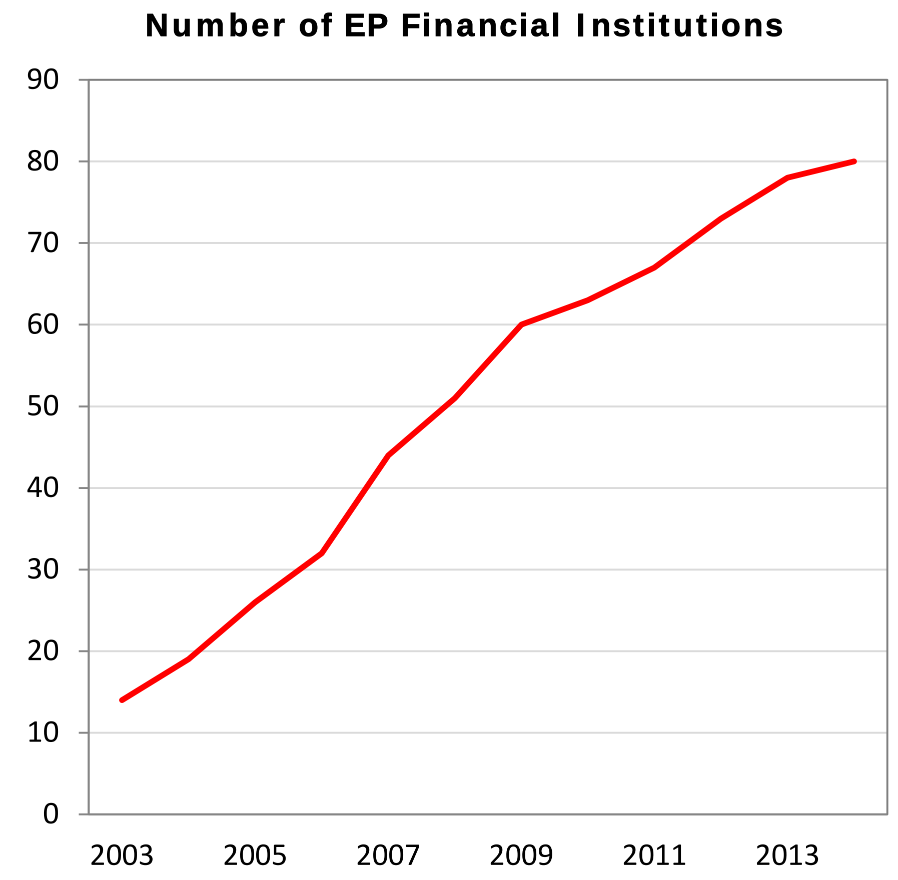
A group of leading project finance banks with a concern for the impacts of the projects we finance

A shared concern for the impact of large infrastructure development

- EP banks share a number of concerns about the environmental and social impacts of their financing activities
- In 2002, a handful of banks joined forces with the IFC to develop a set of voluntary E&S standards
  - Equator Principles are based on the IFC Performance Standards
  - Equator Principles are similar to the ADB Safeguards

Equator Principles adoption has grown very fast

- Developed in 2002 by a group of 9 banks, mostly from Europe and the US
- Today, there are 80 EP financial institutions representing 34 countries
- EP banks account for over 60% of global project finance bank loans



Source: Equator Principles Website

EQUATOR PRINCIPLES IN A NUTSHELL

A set of voluntary environmental and social standards based on the IFC Performance Standards

What is the objective of the Principles?

> Ensure socially and environmentally responsible financing (and thus development) of large scale infrastructure and energy projects

What is the scope of the Equator Principles?

> Projects (energy, power, infrastructure, etc) with significant impacts to the environment or nearby populations

> The banking activities covered are:
- Project finance lending
- Project finance advisory
- Project-related corporate lending
- Provision of bridge loans

What is required of these projects?

> At due diligence stage, prior to financial close:
- Environmental and social impact assessment (which implies baseline studies)
- Community information and consultation (free, informed prior consent)
- Preparation of appropriate monitoring, mitigation and remediation plans
- Establishment of a grievance mechanism

> After financial close, during construction and operations:
- Covenants in financing documents
- Independent monitoring and reporting to the financial institutions

WHAT DO EQUATOR PRINCIPLES BANKS DO?

Through their financing activities, Equator Principles banks promote the development of responsible infrastructure projects

Provide attractive financing to projects that meet the Principles

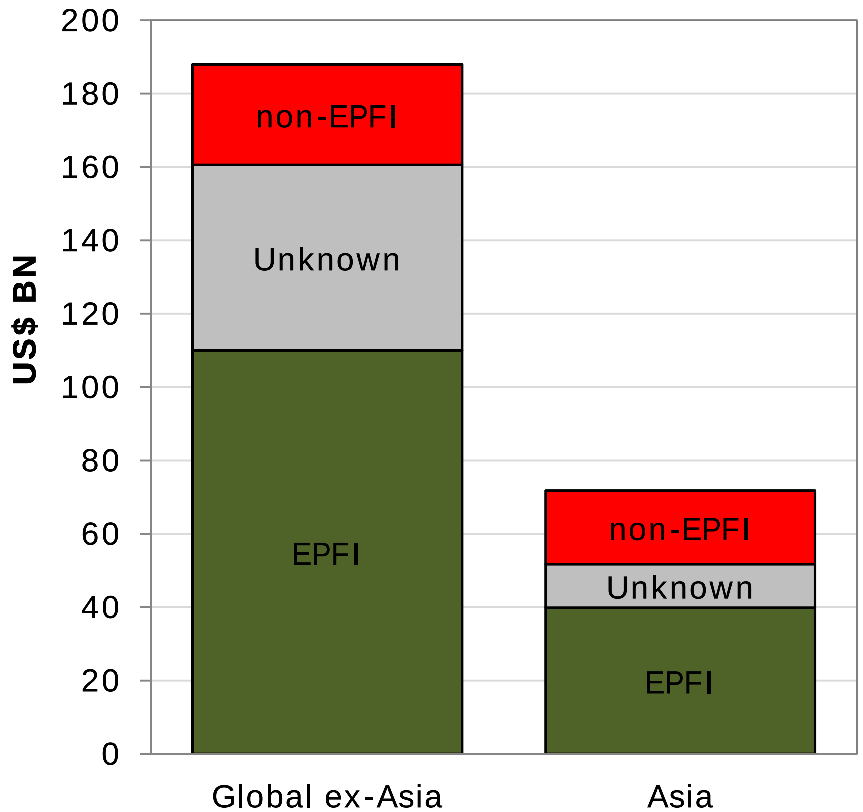
> EP banks provide over 60% of global project finance bank debt
> In Asia, they account for over half of all bank debt projects
> Equator Principles banks help projects reduce their cost of capital
  - Larger pool of debt available
  - Compliant projects have less political risks and attract better pricings

Assist projects in meeting the standards referenced in the Principles

> EP banks want projects to succeed
> At due diligence and structuring stage, EP banks contribute their expertise to help projects become compliant

Undertake not to finance projects that are clearly unwilling or unable to comply with the Principles

Project Finance Loans by Banks (2014)



Source: Project Finance International (PFI) 2014 League Tables

CASE STUDIES: NAM THEUN 2 VS. THEUN HINBOUN EXPANSION

Equator Principles banks work either with multilaterals (WB, IFC, ADB) or alone

Nam Theun 2 project led by multilaterals

- 1,070MW hydropower project
- Project cost in excess of US$1.5BN
  - Amount provided by EP banks: US$326MM or 66% of the USD commercial bank debt* and 43% of the USD debt (balance from development agencies)
- Financier: World Bank, ADB, EIB and various ECAs and international commercial banks and Thai commercial banks

Environmental and social mitigation

- A number of different environmental and social standards had to be satisfied due to the involvement of multiple lending groups.
- Obligations were incorporated into the Concession Agreement to ensure compliance
- Environmental and social mitigation plans in excess of US$100MM

Theun Hinboun Expansion Project led by commercial banks

- 290MW expansion to the Theun Hinboun scheme
- Project cost of US$600MM
  - All international commercial banks involved were EP banks
- Financier: international EP commercial banks and Thai commercial banks, with some involvement from European development agencies

Environmental and social mitigation

- Comprehensive Environmental Impact Assessment, Environmental Monitoring and Management Plan, and Resettlement Action Plan were developed
- Over 50,000 Project Affected Persons (PAP), including over 4,100 resettled persons (708 households)
- Environmental and social mitigation programs in excess of US$40MM

*Three of the nine USD commercial banks were not EP banks at the time of financial close. However, all three of those banks have since adopted EP.

WHAT CAN EP BANKS DO FOR THE MYANMAR HYDROPOWER SECTOR?

Working with the government as well multilateral development organizations, EP banks can be instrumental in the development of a responsible hydropower industry

Alongside the WB, IFC, ADB and other developmental organizations, help Myanmar implement best practices

- When acting as financial advisor, EP banks do advise developers on performance standards
- As lead arrangers, mobilize experts with the required expertise
  - There is a large community of consultants and advisors that have worked with EP banks in other markets

Provide competitive financings to projects that meet EP requirements

- EP banks can provide large amounts at competitive terms to projects that satisfy the EP requirements
- Out of the 10 banks selected to obtain banking licences in Myanmar, 4 are Equator Principles banks
- In addition to EP compliance, some requirements would be:
  - Bankable Power Purchase Agreements (PPAs)
  - Acceptable political risk mitigation, including credit risk of the offtaker

Not finance unsustainable projects

THE ROLE OF EP BANKS – THE LIMITS

The involvement of EP banks alone is not a guarantee of success. Some pitfalls have to be avoided

High environmental and social standards – the banks can help the government, not replace it

- EP banks can help implement standards that are desired by the government (through laws, regulations, contracts), however they cannot achieve what the government is not willing to do
- Without the will of the government, in a competitive environment, unsustainable projects drive sustainable ones out
- Likewise, in a world flush with liquidities, irresponsible lenders will drive responsible lenders out

Quality environmental and social programs tend to be costly – who pays?

- The costs need to be acknowledged and accepted by all
- It is neither the role of developers nor that of project lenders to subsidize E&S programs
- For projects with significant impacts, the benefits of a sustainable financing (lower cost of capital) is not sufficient to cover the cost of large E&S programs
- At the end of the day, it is offtakers who have to cover the cost of E&S programs through energy tariffs
  - Offtakers need to be financially able and institutionally incentivized to take up those costs

Competitive tenders – could they lead to lower E&S standards?

- Competitive tenders: transparency, openness, etc. What is there not to like?
- Oftentimes, the surest way to win a project in a competitive tender is to shave on E&S costs
- E&S obligations: should we shift from a result obligation regime to a means obligation regime for those projects being tendered competitively?

Responsible hydropower needs to remain a profitable business in order to deliver the developmental benefits that we all hope for