

Financing development in Myanmar

The case of Shwe Taung Cement



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Cover photo: Shwe Taung Cement plant, Mandalay region, Myanmar
Cover photo credit: Petra Kjell

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Introduction

The Shwe Taung Cement Company (STC), a subsidiary of Shwe Taung Group (STG) trading under the Apache brand, is in the process of expanding a cement plant and an associated coal mine in Myanmar. A significant part of the funding for the expansion comes from two multilateral development banks (MDBs): direct funding from the World Bank's private sector lending arm, the International Finance Corporation (IFC), and indirect funding also from the IFC and from the newly established Asian Infrastructure Investment Bank (AIIB), through the IFC Emerging Asia Fund (EAF).

A key feature of the cement plant expansion, located in the Mandalay region, is the investment in a new kiln which will increase production capacity from 1,500 to 4,000 tons of cement per day.¹ This means that the volume of coal burned to fuel the kiln will increase substantially, which will nearly quadruple greenhouse gas (GHG) emissions according to IFC's estimates. The expansion of the plant will also require increased extraction from the adjacent limestone and mudstone quarries, as well as from a coal mine, located in the Sagaing region, that supplies the plant exclusively. The mine, which is run by another STG subsidiary, Shwe Taung Mining (STM), is expected to increase production from 60,000 to 150,000 tons per year, more than doubling its output, with supplementary coal purchases from other suppliers to fuel the plant also likely. To date, a study about the rise in

greenhouse gas emissions from the associated coal mine has not been made public.

The STC project first caused controversy when the IFC was considering its direct investment in the project in 2017. The news of the proposed investment, comprising a US\$20 million loan and US\$15 million equity, prompted over 170 civil society groups, the vast majority from Myanmar, to write an open letter to the IFC in June 2017 calling on its Board to refuse funding. One of the central concerns was the use of coal in the industrial process and the expansion of the coal mine. The letter also listed a number of other negative social and environmental impacts, such as pollution of lands and waters, deforestation, destruction of sensitive habitats and impacts on livelihoods near the coal mine and factory areas.²

When the IFC Board voted on the project, the US voted against it, referring to "significant concerns about the environmental due diligence". Reasons included "gaps in baseline data for rare and endangered species as well as insufficient analysis and mitigation plans to address environmental impacts", and it also expressed concerns about the lack of "emissions data for the coal mine and additional air quality data, without which it will be impossible to effectively assess the project's impact."³ Despite these concerns, the IFC approved direct funding to the STC project in late July 2017.⁴



Coal staging area in Sagaing region. Photo: Inclusive Development International



Coal being loaded onto a barge at the coal staging area in Sagaing region. Photo: Petra Kjell

In September 2017, the AIIB Board approved a US\$150 million equity investment in a financial intermediary (FI) run by the IFC's Asset Management Company,⁵ called the IFC Emerging Asia Fund (EAF).⁶ This model of investment involves a bank investing in an intermediary entity, such as a commercial bank or an infrastructure fund, which then on-lends to a subproject or client. This indirect 'hands-off' form of lending carries high risks because social and environmental standards become diluted, and there is often little to no transparency about where the money ends up.⁷ At the time the AIIB approved its investment, the EAF had two companies in its portfolio and was considering an investment in STC. Prior to the approval, civil society organisations (CSOs) Inclusive Development International (IDI), Bank Information Center (BIC) Europe and Urgewald wrote to AIIB President Jin expressing serious concerns about the project and the need for heightened due-diligence. In early 2018 EAF confirmed its investment in STC.

Funding through the EAF and directly through the IFC is subject to the IFC's due diligence process. The IFC classified the investment as category A, meaning that it poses "potential significant adverse environmental or social risks and/or impacts that are diverse, irreversible, or unprecedented".⁸ However, as of October 2018, significant social and environmental impact assessments linked to the project are outstanding and/or have not been communicated publicly. This is despite the fact that it is over a year since the IFC first invested in the project and that CSOs and other stakeholders raised a number of concerns both before the IFC approval

of its direct funding in STC and before the AIIB Board approved its investment in the EAF.

This case study builds on official documentation and research conducted by representatives from BIC Europe, the Centre for Research on Multinational Corporations (SOMO) and IDI in the third quarter of 2018. The research team collaborated with local civil society organisations and met with approximately 35 community members and workers affected by the STC cement plant and associated coal mine.

Climate impacts

Both the IFC and the AIIB have made strong commitments to reduce their impact on climate change. Both institutions have committed to support the 2015 Paris Agreement on climate change, which seeks to keeping global average temperatures well below 2 degrees Celsius above pre-industrial levels, and help countries switch to a low carbon path. In practice, however, there are several loopholes that currently undermine these ambitions – some of which are evidenced in this case study.

For example, the AIIB's Energy Sector Strategy, launched in June 2017, lacks a clear prohibition on funding for coal. It also leaves the door wide open for continued funding of fossil fuel projects, by emphasising the "significant role" they will play in the transition period, including gas-fired power generation as well as "carbon efficient oil- and coal-fired power plants" under certain conditions.⁹ While the World Bank Group, including the IFC, only allows funding for coal power generation under "exceptional

circumstances”, coal for industrial purposes is still permitted.¹⁰ For this reason, IFC officials have argued that the STC deal is not in breach of its policies because it does not involve coal for energy generation but instead for industrial processes. This position ignores the fact that climate change impacts from the vastly increased GHG emissions due to the project will be significant regardless of the purpose for which the coal is used. Studies show that industrial processes – such as cement production – are a significant and growing source of emissions, estimated to contributing over a fifth of direct global GHG emissions.¹¹

The IFC requires its clients to assess greenhouse gas (GHG) emissions when they are forecasted to reach 25,000 tons of CO₂ equivalent (CO₂e) per year.¹² The STC cement plant vastly exceeds this. Emissions from the existing plant equate to 550,000 tons of CO₂e per annum, but once the new kiln is commissioned this will rise to about 2 million tons according to the IFC.¹³ In response to the draft research findings, STC provided an updated emissions estimate of 1.35 million tons per annum after the new kiln becomes operational. This rise in GHG emissions is partly attributable to the increased burning of coal.

In its response to the June 2017 CSO letter, the IFC did not deny that the project involved expanding the use and extraction of coal, but argued that the new kiln and waste heat recovery unit would be more carbon efficient than the current one, and that it also allows for alternative fuels to be used.¹⁴ However, there is no publicly available documentation indicating that alternative sources of fuel have been considered or implemented at the plant, nor that the waste heat recovery unit has been installed as originally designed. The latter requires an increase in water use that STC was unable to ensure through its water reservoirs at the plant,¹⁵ and STC has not yet disclosed a study to confirm water availability.

Moreover, the total calculation of GHG emissions per year does not take into account additional emissions from the expansion of the associated coal mine, including a future switch from open-cast to underground mining which is likely to increase methane emissions in particular.¹⁶ IFC claims that “emissions from the mine have not been quantified as yet, however, relative to the cement plant these are considered limited”,¹⁷ whereas STC claims that the emissions from the mine will be limited and primarily generated by emissions from vehicles.¹⁸ To date, comprehensive data combining GHG emissions from both the cement plant and coal mine operations are unavailable.

Impacts on local communities

The communities surrounding the cement plant and coal mine are already experiencing direct impacts from the current operations and worry about the consequences of the project expansion. For example, they were concerned about the lack of clear information with regards to the planned activities and a lack of knowledge on how to raise their grievances. The villagers from both areas, separated by over 350 km, also shared similar concerns about lack of access to clean drinking water and anxiety that the expansion of the cement plant and the coal mine will increase the negative environmental impacts that they are already suffering.

Consultation and information disclosure

The company reports that community briefings, focus group discussions and household surveys took place in both regions in January 2017.¹⁹ Further meetings were not held until after the IFC disclosed the project information and over 170 CSOs sent a letter raising concerns about the proposed funding. A multi stakeholder meeting was held in Yangon in July 2017 – just under two weeks prior to IFC Board approval. This was followed by two meetings organised in the communities near the cement plant in July 2017, and two meetings in the coal mining region after IFC Board approval, in September 2017. STC published the minutes of these meetings online.²⁰

Community members with whom the research team met were aware that some meetings had occurred. However, community members from the two villages near the cement plant both reported that their village administrators did not invite everyone to a meeting with Environmental Resources Management (ERM), the Environmental and Social Impact Assessment (ESIA) consultant, in 2017. In addition, all the interviewed people reported that the follow-up meetings were mostly aimed at sharing information about the benefits of the projects rather than being consultative. Therefore, despite these meetings, when the research team met with affected villages, several community members were unaware of critical elements of the project. This was especially true in the coal mining region where villagers did not know about the end use of the extracted coal, nor had they received clear information about the planned construction of a new access road to the mine and of a new coal staging area, which are likely to have a significant impact on the village due to its adjacent location.

There are also gaps in the information that is publicly available about the impacts of the project, including a biodiversity survey during the rainy season, an indigenous peoples assessment, an assessment of whether Performance Standard 5 on land

acquisition and involuntary resettlement applies and, importantly, a cumulative impact assessment.²¹ STC, in its response to the draft research findings, noted that the Biodiversity Action Plan will be disclosed following agreement by the government.²²

The seeming lack of a more robust consultation process could be, in part, explained by the fact that the IFC did not require STC to develop and implement a Stakeholder Engagement Plan until February 2018,²³ seven months after the investment was approved. Despite this delay, the research team found that six months after its supposed implementation, the stakeholder engagement plan - which is not publicly available - has significant shortcomings at the project level, as community members reported to have very limited opportunities to engage with the company (see grievance mechanism below).

BCS determination

In addition to the usual information disclosure and consultation, for a category A project, like the STC project, an IFC client is supposed to undertake a process of Informed Consultation and Participation (ICP), which is “a more in-depth exchange of views and information, and an organized and iterative consultation, leading to the client’s incorporating into their decision-making process the views of the Affected Communities on matters that affect them directly, such as the proposed mitigation measures, the sharing of development benefits and opportunities, and implementation issues.”²⁴

IFC is required to ascertain, prior to investment in category A clients, that the ICP has led to broad community support (BCS) for the project. IFC defines BCS as “a collection of expressions by Affected Communities, through individuals or their recognized representatives, in support of the proposed business activity.”²⁵ BCS should be maintained throughout the life of the project.

Despite the IFC’s requirement to ascertain BCS prior to investment, the BCS determination is still pending more than a year after the IFC approved its investment in STC. For that reason, there is limited information available about the basis upon which IFC asserts that BCS exists for the project except for a brief reference in IFC’s Environmental and Social Review Summary: “[c]ommunity members consulted during the ESIA and during IFC’s site visits generally expressed a positive view towards the project and described it as important for local development.”²⁶ Community members the research team spoke with were not aware of the IFC’s requirement to ascertain BCS. They did not feel that they were asked whether they supported the project or not. Therefore, they were surprised to learn from the research team that the IFC had made that determination. Given the limited number of people involved in the consultation, the limited information provided to villagers about the project’s impacts, and the minimal amount of benefits provided to the affected villages, it is difficult to understand the IFC’s basis for finding BCS.



Casual worker at the cement plant. Photo: Petra Kjell

Community benefits

The company has provided some support to the villages in both regions in the form of, among other things, generators and fuel, latrines, and a small water purification plant. In one case, the generator was provided to the community shortly before the meeting with ERM, which according to a villager who attended the meeting made them less likely to speak up since the company representative was also in the room. This could be interpreted as being inconsistent with IFC's ICP requirement that the process "not be influenced by outside pressure or monetary inducements."²⁷ STC also reports building schools and supporting staff salaries in the communities near the cement plant.²⁸

The research team visited the company's information centre, which has a small room attached with a bed, chair, table, sink and cabinet, where the company provides health care services. Villagers asserted that the doctor, employed by STC, comes only twice a month. Villagers in a community closer to the plant also informed the team that the doctor visits them twice a month. The company reports that a medical officer who it employs provides medical services to the villages near the coal mine on a monthly basis.²⁹

Other requests from the communities to the company, including drinking water wells and road renovation, have gone unanswered or unmet. According to villagers in both communities near the cement plant, the company initially promised to address all community requests, but stopped caring about them after the investment by the IFC was approved last year.

Despite the IFC's claim that the project will employ 1,000 workers at its peak,³⁰ the project is providing very few job opportunities to members of the affected communities. Near the cement plant, the villagers estimated that no more than 11 people, in both villages, had been hired by the company. The community members explained that they lacked the education level to be qualified for the jobs. In response to a draft of the research findings, STC explained that the local community members preferred to engage in "independent economic activities" because such activities provide more income and a "freelance-lifestyle".³¹ According to information provided by the IFC, most of the workers employed by the company will be Chinese.³² The company, in its response, reports that there are 250 foreign workers and 400 nationals employed in the construction phase.³³

The research team spoke to a group of casual workers, employed on a day-to-day basis without contract, near the cement plant. They come from other parts of the country and do not have permanent

housing, like the contract workers, but rent land from local farmers where they live in temporary settlements. The company reportedly forces them to move regularly. The people with whom the team spoke had moved six times already and had been told by the company to move again by the end of the month to somewhere far from the road. STC reports that they have agreed to a plan with village leaders for "suitable and permanent accommodation,"³⁴ but the workers the research team spoke with did not have any knowledge of that plan. The company does not compensate them for their moving expenses. Earning approximately US\$3 per day, the workers have to pay for all their living expenses, including rent, electricity and drinking water. They also have to pay for part of the work equipment that is mandatory to wear.

Environmental and land issues

Communities in both regions are concerned about the project's impacts on their drinking water. Community members in both villages near the cement plant complained of limited water quantity, especially in the dry season, in two nearby rivers as a result of the company's construction of a dam and weir to provide water for their industrial processes. They were also concerned about water quality, especially the village that is directly downstream from the cement plant. In that community, people reported that they have suffered skin rashes after bathing in the river since STC started operating, however, the company attributes this to hygiene issues unrelated to its operations.³⁵ Villagers further from the cement plant are concerned about the cumulative impacts on water quality from the other cement plants in the region and a nearby gold mine that villagers suspect of also contributing to deteriorating water quality.

The village closest to the cement plant reports experiencing dust and ash pollution from the cement plant that coats their solar panels and damages the villagers' subsistence crops. This has a direct impact on the household economies, as they are now forced to buy vegetables. In response to the draft research findings STC reported that it had implemented an air monitoring programme and will take additional measures, if necessary.³⁶

Community members near the cement plant complained that land and crops losses they suffered during the construction of the first transmission line were not adequately addressed yet. Some of those claims were reportedly settled prior to IFC's investment, but the legacy of the land conflict due to the construction of the original transmission line supplying power to the plant remain unresolved. More claims arose in the summer of 2018 during the construction of the new transmission line, as

Unresolved land issues



Map of how the extended power line crosses the family's land. Photo: Petra Kjell

When STC representatives first came to measure the land and negotiate compensation, Khin Yuen* thought he landed a good deal for himself and his siblings who share the land. But as the power line was about to be stretched across their land, he was called in to the STC office for another negotiation – this time for substantially less money. Alone in the room with three STC representatives he felt under pressure to sign the new agreement. The transmission line is now completed and as it runs straight over the middle of the land it is impossible to grow rubber trees as he and his siblings had planned to do. Also, after asking around he has concluded that his compensation is much less than many others that suffered similar losses, and he now feels cheated: "I was happy with the first deal, but I have so many difficulties now. 15 lakh** between five people is too little and my siblings blame me."

* the name has been altered to protect the interviewee's identity

** 1,500,000 Burmese Kyat, approximately US\$950

there appeared to be no consistent methodology for determining the compensation amounts, resulting in some recipients receiving more than others for similar losses. Information provided by the IFC implied that the new transmission line would use the same land as the first one, but the number of new complaints about loss of crops and access to land suggests otherwise.

In the coal mining region, villagers are also concerned about the cumulative impacts on the water, biodiversity and climate. The villagers reported that at least a dozen coal mines operate in the area and that temperatures in the region are rising. They attributed this to increased deforestation to make way for the coal mines. The research team observed ships loaded with coal along the river without any cover or protection. Similarly, the team observed multiple coal staging areas located directly on the riverbanks with seemingly no measures for preventing run-off or spills and with no barrier between the coal and

the soil. Despite an assertion by STC that there are stormwater diversion berms and collection pools,³⁷ the research team did not observe them. The company's new coal staging area next to one of the villages looked to be under development, but the villagers had not been informed if or when it would be operational. On a road to the company's mine entrance, currently maintained by the company but also used by other mine operators, the team observed a large coal stockpile uphill a short distance from the river. The team did not observe any measures to prevent run-off or spillage from entering the river. STC asserts that the stockpile is not associated with its operations.³⁸

While these impacts are already occurring, villagers express serious concern and anxiety about the expansion of the plant and mine projects because they believe it will result in the intensification of impacts that they are already experiencing.

Grievance mechanism

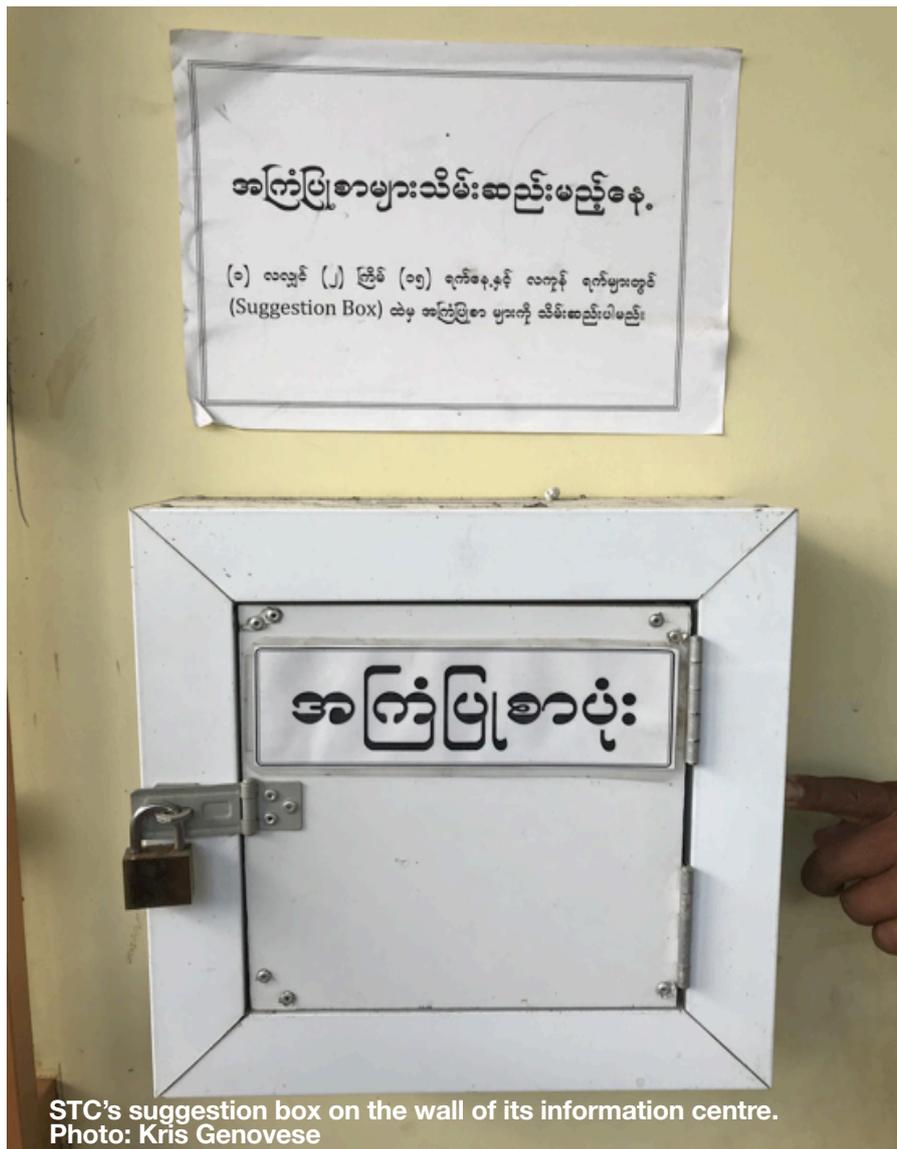
The IFC requires its clients to establish a grievance mechanism that should be “scaled to the risks and adverse impacts of the project” and to inform affected communities about it through the stakeholder engagement process.³⁹ Villagers we spoke to in both regions were unaware of the company’s procedures for resolving grievances.

Initially, a village committee was established in the cement plant region to engage with the company to resolve complaints. The committee was involved in the resolution of one complaint related to compensation for loss of crops due to the construction of the new transmission line to the cement plant. But following that complaint, the company ceased its engagement with the village committee. A second complaint related to compensation for losses caused by the original transmission line was reportedly rejected by the company because it was outside the statute of limitations.

The research team observed a “suggestion” box on the wall of the company’s information centre.

Neither the personnel at the information centre nor the community members could explain to the team what happened after the contents of the box were collected and transmitted to the company. There was no written material in the information centre explaining how to submit a complaint or the procedures that were followed to handle grievances. In response to the draft research findings, STC said it will ensure additional information is available on how to submit a complaint and how complaints are handled.⁴⁰

AIB is in the process of establishing a Project-Affected People’s Mechanism (PPM), however, according to available drafts this will not apply to the STC project as it excludes complaints on projects co-financed by other MDBs, where the environmental and social policies of the other MDB apply. Hence in this instance, only IFC’s standards apply and grievance can only be file with the IFC’s accountability mechanism, the Compliance Advisor Ombudsman (CAO). No remedy can be sought from the AIB’s PPM. None of the villagers in either region had heard of the CAO or knew how to file a complaint there.



STC’s suggestion box on the wall of its information centre.
Photo: Kris Genovese

Conclusions and recommendations

This case study provides evidence of significant gaps in both transparency and social and environmental accountability of the IFC's direct and AIIB's indirect investments in the STC project. It reveals flaws in due diligence, as well as in institutional policies. The communities affected by STC's cement plant and associated coal mine specifically request that IFC and AIIB, as part of its monitoring duties, visit them to hear their concerns.

It is concerning that over a year since the IFC Board approved its investment in STC a number of important social and environmental assessments are still outstanding or have not been communicated publicly. This is despite the category A project classification and the number of concerns raised before and subsequent to project approvals by both the IFC in July 2017 and the AIIB's investment in EAF in September 2017, which came only a few months before the EAF invested in STC.

In order for civil society to hold the IFC, as well as the AIIB, accountable it is essential that communities know who is financing the projects affecting their lives and have adequate and detailed information about the impacts resulting from the planned project expansion. Confirmation of community support is essential – something that has not yet been verified with regards to the STC projects. Each multilateral investor should also offer options for remedy should harms occur – this is currently not the case with AIIB, which excludes co-financed projects. There is often a lack of disclosure and accountability when projects are funded through FIs, and this needs to be rectified, as without access to adequate information, affected communities are unlikely to benefit from the standards and policies that should apply to this type of investment.

The fact that cumulative impacts appear not to have been taken into consideration in any meaningful way is particularly concerning, given the proximity of other industry and mining operations, and despite impact on communities to date – let alone once the expansion is complete. The lack of comprehensive assessment of climate change impacts is equally concerning.

The IFC and the AIIB should:

- Publicise their involvement in sub-projects at the project sites among affected communities.
- Disclose the name, sector and location of risky sub-projects financed via FIs on their websites as well as on the FI client's website.
- Ensure compliance with all policies, relevant sectoral strategies and guidelines, including the full set of environmental and social standards, for both direct and indirect investments.
- Track and disclose their clients' exposure to coal and other fossil fuels.
- Prohibit financing of coal for any purpose, including for power generation, for industrial processes and for coal mining – both via direct and indirect lending.
- Set an institutional target for GHG emissions reductions across the portfolio, and start measuring and publicly disclosing comprehensive GHG emissions for all projects and sub-projects.
- Invest only in clients who commit to develop a portfolio decarbonisation plan within a year of investment, which aims to achieve emissions reductions in line with targets set under the Paris Climate Agreement.
- Ensure that social and environmental harms caused by direct and indirect lending are remedied and that local communities receive adequate redress from both multinational development banks with regards to co-financed project and FI sub-projects.
- Engage with communities affected by projects and sub-projects as part of the banks' monitoring duties, ensure their concerns are heard in a safe environment and that these concerns are adequately taken into consideration in follow-up decision-making about project implementation.

Endnotes

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