BLOWING SMOKE

How Coal Finance is Flowing through the IFC's Paris Alignment Loopholes

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For further information on the issues raised in this report please contact:

Inclusive Development International

9 SW Pack Square Suite 301
Asheville, NC 28801 USA

Tel. +1 (828) 505-4340

info@inclusivedevelopment.net

Inclusive Development International works to advance social, economic, and environmental justice by supporting communities around the world to defend their human rights and environment in the face of harmful corporate activities. Learn more at:

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Coal development threatens the quality of life in Jambi, Indonesia.

The World Bank's International Finance Corporation (IFC) has committed to no longer fund coal-related projects. However, an investigation by Inclusive Development International, Recourse and Trend Asia shows how the IFC continues to indirectly back some of Asia's largest coal developers.

Jambi province extends from the white sands and crystal waters of the east coast of Sumatra, Indonesia, to the verdant Barisan Mountains in the west. It borders the Kerinci Seblat National Park, where endangered Sumatran tigers still roam. But a bird's eye view of the province reveals the toll industry has taken. The Sumatran forests, home to more than 100 endangered animal species, are interrupted by the black stains of coal mines and the unnatural uniformity of palm oil plantations.

Home to more than a dozen coal mines, Jambi province is one of Indonesia's most important coal-producing regions. But this has brought problems for people living near the mines. They have seen air and water quality plummet. Rural villagers say the pollution has made them sick and threatened their livelihoods, which often depend on natural resources.

Historically, Sumatran coal has been exported for use elsewhere, but Jambi's abundance of it—the province produces 13 million metric tons per year—has attracted developers seeking to turn that coal into power and further profit. There are plans to build as many as 14 new coal power plants on the island, which will bring new risks for local residents and will increase demand for coal production, exacerbating the harms nearby communities are already experiencing.

An investigation by Inclusive Development International, Recourse and Trend Asia found that the world's premier development bank, the International Finance Corporation, part of the World Bank Group, is backing several of these coal plants indirectly. The IFC is supporting these projects through investments in third parties known as financial intermediaries, which have gone on to provide billions of dollars to some of the world's largest coal developers.

By far the largest financier of coal developers in the IFC's portfolio is Postal Savings Bank of China.

The IFC purchased a stake in Postal Savings Bank of China in 2015. The bank has gone on to provide 418 billion RMB ($57.2 billion) in no-strings-attached credit lines to companies developing dozens of coal-fired power plants in the region. Postal Savings Bank has provided these credit lines at a time when much of the financial industry is shifting away from coal.

Among the plants the IFC is indirectly supporting is a 700-megawatt (MW) coal-fired power plant called Jambi 2, planned to be located at the entrance of one of the region's numerous coal mines. It's a project that local advocates say the island doesn't want and doesn't need. Yet Postal Savings Bank of China has provided a credit line to its developer, China Huadian.

"It's not right," said Abdul, a campaigner for Walhi Jambi, the local chapter of Indonesia's oldest and largest environmental NGO. He said the IFC's investments are directly supporting suffering and are being used "to help destroy the environment, destroy whatever land we have left."

The IFC's exposure to coal development in Sumatra is not an isolated case. The investigation by Inclusive Development International, Recourse and Trend Asia found that the IFC is exposed to 68.3 gigawatts (GW) of coal-fired power capacity, nearly double the coal-fired capacity of Germany, either in the form of newly operational plants that have come online since 2019, projects that are currently planned, or plants that are under construction. This coal capacity is spread across 39 projects in China, Indonesia and Cambodia.

The IFC's exposure to new coal development in Asia

IFC Client (Financial Intermediary)	# New Coal Projects	Total Financing	Total Gigawatts
Postal Savings Bank of China	36	$57.3 billion	62.07
KEB Hana Indonesia	2	$530 million	4.2
China-ASEAN Investment Cooperation Fund	1	Equity Investments (Amounts Not Disclosed)	2.03

Research Methodology

For this report, Inclusive Development International traced the International Finance Corporation's money through financial intermediaries to new coal-fired power capacity in Asia. The full results are here.

We define new coal capacity as projects that have become operational since 2019; projects that are under construction; and projects that have been announced by developers. This data does not include projects that are listed as shelved or canceled, although developers regularly reactivate shelved projects after long periods of inactivity. For all data on coal plants, including project names, generating capacity, development timelines and project owners, we relied on the Global Energy Monitor, which tracks energy infrastructure around the world. For data on project developers, including their current coal-generating capacities, development plans, and issuances of debt securities, we relied on the Global Coal Exit List, which the IFC also uses to help its clients identify coal exposures in their portfolios.

All other data comes from research conducted by Inclusive Development International, Recourse and Trend Asia into corporate filings, the International Finance Corporation's project disclosures, and site visits in Indonesia.

The investigation reveals that despite promises to halt financing for coal development and align with the Paris Agreement on Climate Change, the World Bank continues to indirectly support a sector that experts say is one of the most significant contributors to carbon emissions and the devastation of the planet through climate change.

The World Bank's policy isn't the only one with significant gray areas. Despite the Chinese government's pledge not to develop new overseas coal plants and the Indonesian government's commitment to stop developing new coal plants domestically, the Jambi 2 project may still be moving forward, leaving people in its vicinity concerned about their futures.

Indonesia's solution to its coal problem

Coal-fired power plants, which look like giant smoking candles from afar, supply over a third of all electricity worldwide.

This method of electricity generation is one of the largest sources of global greenhouse gas emissions. Some experts believe that the most important step we could take to avert climate change is to halt the development and use of coal-fired energy.

Currently, 27 countries in Asia, including Indonesia, account for 76% of global coal generation capacity. Indonesia is the third-largest coal producer in the world, and 60% of the country's domestic electricity comes from this dirty energy source.

Over the past decade, the country made poor predictions about electricity demand and built more plants than needed, Indonesian government officials acknowledge. The situation has put Indonesia on track to become one of the largest carbon emitters according to some projections. But even with this glut of coal-fired plants devouring local supply, Indonesia has more coal than it can use and remains the world's largest exporter of thermal coal for electricity.

At the 2021 United Nations Climate Change Conference, Indonesian President Joko Widodo announced the country would stop any new coal projects not already slated for construction. Indonesia was one of 40 countries to make similar promises. A year later, the government enacted regulations to prevent issuing permissions for new coal plants. However, plants with secured permits or projects on the government's Electricity Supply Business Plan (RUPTL) are allowed to proceed.

Although Indonesia's electricity utility, PT Perusahaan Listrik Negara (PLN), has not indicated whether Jambi has secured a permit, it maintains that the project is moving forward and is on track to reach financial close. This has alarmed local advocates and communities, who fear the project is slipping through the cracks.

Coal trucks plague daily life in Jambi province.

Through the loopholes: new projects despite international commitments

In three short years, residents of the tiny agricultural village of Lubuk Napal could be living next to a hulking 700 MW coal-fired power plant.

Jambi 2, first conceived by PLN in 2011, is slated to be built immediately beside the thatched-roof homes of about 40 families in the village.

Jambi 2 is planned in a region already plagued by the impacts of coal.

Pemusiran village is just a few kilometers away from three major coal mines.

It could be built less than 15 kilometers away from Pemusiran village, a small agricultural town in the south of Jambi. Construction has already begun on another coal-fired power plant only five kilometers away from the village. This area was chosen because of its proximity to three major coal mines. Coal already pervades the lives of the approximately 3,000 people living there.

Thousands of trucks carrying coal from the mines choke the two-lane highways of the province. The boxy, brightly colored four-wheeled vehicles clog the narrow arteries of the province and can stop traffic, sometimes for days at a time, preventing people from accessing essential services. Sick people traveling to hospitals have died waiting in gridlock, unable to get to hospitals in time.

The heavy trucks hit and kill dozens of pedestrians each year. They rut and prematurely age the roads that local drivers rely on to get from villages to larger centers for employment or to purchase necessities.

Three massive coal mines are located mere kilometers from the Pemusiran village.

Before the mines existed, water from the jungle-fringed river that winds through the town was clean enough for fishing, bathing and drinking. The mines have made that impossible. Locals allege that the mining companies dumped liquid waste into the water, which is now brown and murky. People who wash in the river have complained of health problems and itchy skin. Some of their children are sick and have skin flaking between their fingers and toes. Studies have found that children living near coal mines have increased risk of skin conditions.

Community members living in Pemusiran spoke to the authors of this report anonymously. Speaking out against the coal industry can have repercussions for people and their families who depend on the mines for their livelihoods.

The Pemusiran River is brown and murky. Locals allege mining companies are dumping waste into the water.

Sitting cross-legged on the floor of a wicker hut, an older man with gray hair wearing a sarong said he used to fish in the nearby river. But since the first mine started operations in 2008, his fishing trips have yielded fewer and fewer fish. He has barely caught anything in 15 years and has given up trying. He now works in a rubber plantation where he has seen the leathery leaves of the rubber trees yellowing. He believes the quality of the rubber has decreased as a result of pollution in the area. The milky white rubber harvests have been less plentiful, and his income has taken a hit.

A rubber plantation worker believes coal development in the area is impacting the health of rubber trees.

Other farmers' livelihoods have also suffered. The removal of monkey habitats has driven the primates closer to town, causing problems for farmers who grow chilis, bananas, mangosteen and rambutan.

A community elder with wrinkled hands wearing a traditional oval-shaped songkok hat remembers a time in the village before coal. By the time the mines came, he was already too old to profit from the new jobs they created. He said for those in their prime, the mines provide employment, but they leave people like him behind, left to suffer the impacts of coal development without the economic benefits. He said even for the younger members of his community, the jobs are entry-level and blue-collar, and locals don't benefit from the higher-paying administrative positions.

A younger man he knows got one of those blue-collar jobs. Speaking to authors on a hot day, the younger man said he is still healthy but has seen coworkers falling sick with asthma and other respiratory issues. The mining company, however, has not acknowledged the problems, and he said workers are asked to quit if they fall ill too often.

A mine worker says his colleagues have health problems that company officials are not taking seriously.

The entrance to the area's coal mines sits off the main road to Pemusiran. A gravel road snakes up to the sprawling black pits that cut into the green hillside. The ubiquitous coal trucks hover ominously at the exit gate, waiting until 6 p.m. when they are allowed to travel the roads.

Coal dust plagues the villagers. It is stirred up from mining machinery, carried by the wind from stockpiles kilometers from the village and the overly full loads of the coal trucks. Consequently, even people who aren't employed in the mines have developed persistent coughs.

A community elder in Pemusiran village says he sees only the problems with the nearby coal mines and none of the benefits.

Coal dust causes respiratory problems for people living near coal mines in Jambi.

If Jambi 2 and other coal plants are built in Sumatra, coal mining will continue and likely intensify to fuel these plants.

Beyond their catastrophic role in accelerating global warming, coal-fired power plants cause health problems for those living in their immediate vicinity.

Studies have shown those living close to coal plants die younger and face increased risks of lung cancer, respiratory and cardiovascular disease. Mining combined with the newly operational plants will worsen the existing air and water quality issues experienced by communities like Pemusiran.

Community members in Pemusiran say they have received little education about the potential impacts of living so near coal plants but are concerned for the well-being of their friends and families and the impacts on agriculture.

Abdul from Walhi Jambi says communities would see more rewards from other types of development. "They need more to make their agricultural products valuable, such as higher prices for palm oil and rubber," he said. He believes the new coal plants are unnecessary. "We have other energy sources available." A study by the International Energy Agency, in collaboration with the Ministry of Energy and Mineral Resources of Indonesia, found that solar could potentially play a bigger role in powering the island. Other research has found that there are untapped hydropower resources on the island.

Communities unsure of what lies ahead

For people living in Jambi province, there are more questions than answers about the future of the Jambi 2 project. Obscure dealings between PLN and the primary company developing the project, China Huadian, have left communities and advocates in the dark.

Until recently, both companies have been tight-lipped about the status and plans for the project despite repeated requests for information. The reason is unclear.

China Huadian is one of the five largest state-owned power generation companies established during the reform of the national power system in China. The company has been developing coal power projects in Indonesia for years. In May 2018, China Huadian Hong Kong Co., Ltd, a subsidiary of China Huadian Corporation, signed a power purchase agreement for the Jambi 2 power station with PLN to supply electricity to the local area.

News of the announcement proclaimed that Jambi 2 would "alleviate the local electricity shortage, reduce the cost of local electricity consumption, increase taxation to promote employment, and promote local social and economic development." However, community advocates in Jambi say that the project's risks far outweigh the claimed benefits.

The agreement stipulated that two units would be developed and constructed under a Build-Own-Operate-Transfer arrangement. While the details of these types of contracts are not made public, an arrangement like this generally means that China Huadian would be the project owner during the timeframe stipulated in the contract. It would likely make equity investments in the project and seek separate financing.

However, the high-level commitments of the Chinese government may have complicated things. In an address to the United Nations in September 2021, President Xi Jinping pledged that China would not build new coal-fired power projects overseas. Following the announcement, China Huadian took the positive step of establishing a working group to look at overseas coal projects. Shortly after, in January 2022, the company said through its official Chinese social media account that it had "resolutely" withdrawn from Jambi 2, to follow China's policies on overseas coal power.

Despite this public pledge, PLN maintained in an email to the authors of this report that China Huadian is still developing the project and that the power purchase agreement between the two parties remains in effect. In the September 2023 email, PLN also said the project is moving toward financial close. China Huadian did not respond to requests for comment for this report nor has it answered requests from civil society organizations for updates on the status of the project.

China Huadian's exit announcement was an encouraging development for local communities. However, the company has not addressed how it will get out of the binding power purchase agreement it signed with PLN. Nor has it said whether it would sell its stake in the project to another developer. While the company may want to honor President Xi's commitment to no new coal projects outside of China, it is unclear if it will follow through.

The chimneys of the Banten Suralaya power station blacken skies near Cilegon, Indonesia.

The IFC's mixed messages

If the project moves forward, the IFC will find itself indirectly backing yet another in a long line of planned and operational coal plants.

In the past 15 years, the private-sector arm of the World Bank has shifted more than half of its total financing operations from direct loans to projects and companies to investments in financial intermediaries, such as commercial banks and private equity funds. These third parties invest the IFC's money onward, with minimal oversight and sometimes disastrous results.

Inclusive Development International followed the money in the IFC's financial-sector portfolio and exposed the coal plants, human rights-abusing corporations and destructive mines it has indirectly backed in its Outsourcing Development investigative series.

In response to pressure from civil society watchdogs, the World Bank Group has made a series of commitments designed to reform its approach to investing in financial institutions, reduce its exposure to coal and align itself with the Paris Agreement. Most prominently, in 2019 the IFC launched its Green Equity Approach, which requires financial institutions in which it holds shares to halve their coal exposure by 2025 and eliminate it from their portfolios by the end of the decade.

Abdul of Walhi Jambi, a chapter of Walhi Indonesia, calls the IFC's support for Jambi 2 unethical.

In 2023, the IFC closed a major loophole that Inclusive Development International, Recourse and Trend Asia pointed out in the approach by updating the rules to restrict equity clients from financing any new coal projects. However, the IFC's flagship approach aligning its indirect lending operations with the Paris Agreement contains other loopholes and gray areas: it still allows equity clients to underwrite bonds for coal developers, and it allows clients to finance industrial projects that are powered by dedicated coal plants, a concept known as captive coal. And it is unclear how and whether the "no new coal" rule is being applied to existing clients' corporate financing of coal developers.

In fact, research reveals that banks in which the IFC holds equity stakes have continued to provide financing to the developers of new coal projects. These projects have profound consequences for global warming and have inflicted hardship on the local communities where they are based.

Jambi 2 is one of these projects. In 2015, the IFC purchased a stake in Postal Savings Bank of China, a retail bank based in Beijing, for approximately $300 million. The IFC rationalized this investment by highlighting the role it could play in "expanding financial inclusion in China, given that Postal Savings Bank of China is an important lender for small and medium-sized enterprises and of rural finance." However, the IFC did not restrict how the bank could use the proceeds of its investment.

After becoming an IFC financial intermediary client, Postal Savings Bank of China has provided China Huadian, the developer of Jambi 2, with increasing amounts of credit. This credit can be used throughout its operations, including to develop projects such as Jambi 2 for things like hiring contractors for the project's feasibility study, survey and design.

China Huadian had access to a 110 billion RMB credit line at the end of 2021, an amount Postal Savings Bank increased to 123 billion RMB at the end of 2022, according to corporate filings, violating the spirit—if not the letter—of the World Bank Group's various anti-coal commitments.

In total, Postal Savings Bank of China has provided 418 billion RMB ($57.3 billion) in credit lines and project financing to companies developing numerous coal-fired power plants in the region, according to Inclusive Development International, Recourse and Trend Asia's investigation.

In this way, the IFC—funded by taxpayers from member countries—is indirectly supporting the development of projects like Jambi 2.

"It means that the public indirectly supports the acceleration of the destruction of our environment. For us, this is totally unethical"

Abdul from Walhi Jambi

The Global Coal Exit List, a database of companies developing coal assets and the financial institutions backing them, shows that beyond the Jambi 2 project, China Huadian Corporation has 17.5 GW of coal expansion plans and an installed coal capacity of 89 GW. Because of the loan from Postal Savings Bank of China to China Huadian, the IFC is effectively supporting all of these projects.

In South Sumatra, China Huadian is the 55% owner of the Bangko Tengah (SS-8) power station, a 1,200 MW coal-fired power station. The plant is supposed to start operations in fall 2023. It will be Southeast Asia's largest mine-mouth steam power plant project.

Before the development of the mine that will feed Bangko Tengah, village heads and Indigenous community leaders protested the acquisition of the land for coal mining. Coal development in the area has disrupted tiger habitats resulting in conflicts between people and the iconic animals. Even before the plant's completion, water pollution and impacts on agriculture have plagued the community living near the coal mine.

In Cambodia, China Huadian partially owns the CIIDG-Huadian Sihanoukville Power Station, a 700 MW plant that became operational in 2022. The plant is located next to three other coal plants, which came online between 2014 and 2020. Before these plants were built they faced local opposition and protests. Local communities have complained of coughs and skin irritation since coal plants began operating in the area, and in June 2019, more than 40 families formally complained to the provincial authority.

These impacts will likely be heightened with the Huadian plant coming online in 2022. With an installed capacity of 700 MW, this is the largest coal-fired power plant in Cambodia, and when fully operational will more than double the country's coal power capacity.

China Huadian is not the only coal development company to receive financing from the Postal Savings Bank. In 2020 Postal Savings Bank of China provided a 110 billion RMB ($15 billion) credit line to China Energy Investment Corporation, another Chinese state-owned energy company, and has underwritten $310 million in China Energy Investment Corporation debt and equity securities.

China Energy Investment Group Corporation is the developer of Java 7, a 2,100 MW coal plant, through a 70% equity stake. The plant, which started operations in March 2020, and the coal transport barges that service it, have caused pollution and disruption of the marine ecosystem that has devastated the livelihoods of local fisherfolk. The Global Coal Exit List shows that China Energy Investment Group Corporation has 26 GW of coal expansion plans and an installed coal capacity of 188 GW.

Inclusive Development International asked the IFC how it reconciles its commitment to align financial sector investments to the Paris Agreement with its ongoing equity investments in financial intermediaries, like Postal Savings Bank of China, that are bankrolling Asia's largest coal developers. The IFC responded in an emailed statement that it cannot comment on the portfolios of its financial intermediary clients due to confidentiality agreements with clients.

Coal-fired power has played a critical role in accelerating climate change, which risks life on Earth.

According to the Intergovernmental Panel on Climate Change, every emissions reduction scenario that avoids the most dire effects of climate change involves a rapid phase-out of coal.

Though the World Bank Group has a mandate to promote sustainable development, it's clear that the IFC's hands-off approach to financial intermediary lending, as demonstrated by its investment in Postal Savings Bank of China, can be deeply detrimental to local communities and the planet. While almost every major development bank has committed to ending coal finance, loopholes have allowed their financial intermediaries to continue backing new coal projects. One of the strongest messages the international community could send to the coal sector would be to stop financing its development. If the IFC is serious about its commitment to harness its investments to hasten the clean energy transition, it must close all the loopholes that could help enable new coal power projects like Jambi 2 to move forward despite the global consensus that they should not.

Inclusive
Development
International

Inclusive Development International
9 SW Pack Square, Suite 301
Asheville, NC 28801 USA