

# Coming clean: Can the IFC help end coal finance?



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Authors: Kate Geary and Ceren Temizyürek, Recourse.

Cover photo: Dhemas Reviyanto, Trend Asia. Demonstration in June 2020 by campaigners against the Java 9 & 10 coal plants in Indonesia.

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For further information on the issues raised in this report, please contact: Recourse, Sarphatistraat 30, 1018 GL Amsterdam, The Netherlands.

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There has been a quiet revolution in the world of high finance. For years the World Bank's private sector arm, the International Finance Corporation (IFC), had been providing support for coal mines and power plants through indirect investments – called financial intermediaries (FIs), such as commercial banks and private equity funds. Local communities discovered that the coal plant they were protesting against was financed not just by their national banks – like Axis in India, or Rizal Commercial Banking Corporation (RCBC) in the Philippines – but also by the world's premier development bank.<sup>1</sup>

In 2018, IFC's CEO, Philippe Le Houérou, signalled a new direction for IFC in response to public outcry. "Over the past few years, civil society groups have been critical of IFC for supporting financial intermediaries that have coal exposures," he wrote. "In response, we have changed our policy ... to vastly reduce our direct and indirect exposure to coal in new financial intermediaries projects."<sup>2</sup>

This matters, since what IFC does, others follow. IFC is the standard setter for both the private sector and those who lend to them: IFC's Performance Standards are the blueprint for the world's 32 export credit agencies, for the 110 banks of the Equator Principles<sup>3</sup>, and for other development finance institutions.<sup>4</sup> An estimated \$4.5 trillion in investments across emerging markets adhere to IFC's Performance Standards on Environmental and Social Sustainability.<sup>5</sup> On its own account, IFC is a significant player: its current investment portfolio totals nearly \$59 billion, and of the \$19 bn it invested in 2019, over 60% went to FIs.<sup>6</sup>

IFC's 'Approach to Greening Equity in Financial Institutions' (Green Equity Approach or GEA), which IFC piloted last year and published in September 2020, commits the IFC to end equity investments in financial institutions that do not have a plan to phase out investments in coal-related activities.<sup>7</sup> The GEA requires IFC's equity partners to increase climate-related lending to 30% and reduce ex-

posure to coal related projects to 5% by 2025 and to zero (or near zero) by 2030 (see Table 1). This new approach applies to IFC's equity clients, which as of June 2020 comprised 15% of IFC's FI portfolio. For the rest – debt clients – IFC states: "All new loans to Financial Institutions are ringfenced to ensure that IFC financing only supports key targeted sectors such as micro, small and medium enterprises, women-owned businesses, housing finance and climate-related projects. Thus, coal financing is excluded."

It is clear that both IFC's rhetoric and its approach have changed for the better – but what does this mean in practice? This paper aims to explore the implications of the IFC's change in direction. What has been the impact on IFC's FI portfolio since it piloted the GEA in July 2019?

This paper examines the overall fossil fuel exposure of IFC's FI investments in the last year, and explores the opportunities afforded by the GEA to move clients beyond coal. We also look at the example of Hana Bank Indonesia, the first IFC client to pilot the GEA.

It is of course too early to assess the full impact of the GEA. Judging whether it has succeeded will not be possible until we can verify whether IFC clients' exposure to coal drops by 2025 and decreases to zero by 2030. But in the meantime, the IFC has sent a crucial signal to the investment community: that the era of coal is over.

## What is the IFC's Green Equity Approach?

In its newly-published 'Approach to Greening Equity in Financial Institutions', IFC lays out how it will help clients both increase climate lending and reduce coal exposure.<sup>8</sup> For new clients, IFC is crystal clear: "IFC no longer makes equity investments in financial institutions that do not have a plan to phase out investments in coal-related activities." The plan is the key here: the point is not to exclude clients who have any exposure to coal, but rather to work with them to decrease and

then exit coal, “Equity investees may have portfolio exposure to coal projects until 2030 in line with the respective limits set by this approach.”

These respective limits are set out as follows and apply respectively to existing clients with no new business, existing clients with new business, and new equity clients.

**Table 1: IFC's coal and climate criteria for existing and new equity investments**

Criteria	Existing equity clients (no new business)	Existing equity clients (with new business)	New equity clients
Maximum threshold of coal exposure at investment	No maximum threshold requirement	No maximum threshold requirement	<15% exposure to coal-related activities
Coal exposure by 2025	Reduced to or kept at 5% of total loan portfolio	Reduced by 50% or no more than 5% of total loan portfolio (whichever is stricter)	Reduced by 50% or no more than 5% of total loan portfolio (whichever is stricter)
Coal exposure by 2030	Zero or near zero	Zero or near zero	Zero or near zero
Climate target by 2030	30% or country-specific target	30% or country-specific target	30% or country-specific target

Source: IFC, September 2020, IFC's Approach to Greening Equity Investments in Financial Institutions

What does coal exposure entail? IFC recommends that its clients screen their exposures against German NGO Urgewald's Global Coal Exit List (GCEL) to identify coal-related projects.<sup>9</sup> IFC defines coal-related projects as “long-term (more than 36 months) project finance and/or corporate finance for the development of new coal-related projects including coal mining, coal transportation, as well as infrastructure services exclusively dedicated to support any of these activities, and coal-fired power plants.”

in reducing exposure to coal-related projects, IFC will require financial institution clients to publicly disclose on an annual basis on their website or in their annual report their aggregated exposures to coal-related projects.” IFC will also provide links to this information on its website.

Crucially, the client's progress in meeting these targets will be publicly verifiable. “To monitor the performance of its equity clients

As shown in Table 1, IFC also commits that it will use the GEA to engage with its existing equity clients, both those with new business and those without. This opens the opportunity for IFC to address harms caused by its past investments in coal through FIs, such as the multiple coal plants supported via RC-BC.<sup>10</sup> These projects are the subject of the

first mass climate complaint to the IFC, filed by the Philippine Movement for Climate Justice.<sup>11</sup>

It is important to note, again, that only a minority of IFC's FI investments portfolio is in equity; the majority – 85% according to IFC as of 30 June 2020 – is in debt. For these clients, IFC commits to exclude coal by ring-fencing its investments to specific purposes.

For this reason, this paper looks both at IFC's debt and equity investments over the last year to assess to what extent IFC has explicitly addressed coal exposure. Since in order to tackle the climate crisis, it is also vital to end financing for other fossil fuels, we also examine IFC's new FI investments' exposure to oil and gas.

### Examining IFC's FI portfolio: Coming clean?

#### Methodology

This analysis used publicly available project information on IFC's own portal, as accessed through <https://disclosures.ifc.org/> in June 2020, and later updated in September 2020. The scope of the research was limited to IFC's FI investments, whose disclosure date is between 1 July 2019 and 1 June 2020 and to environmental categories FI-1 or FI-2 (high or medium risk). FI-3 projects were not included, as these are considered low risk. The scope included all FI-1 and FI-2 investments listed on the IFC's portal – including those pending approval, pending disbursement, and active; it also included all investments defined FI-1 or FI-2, regardless of whether the investment was managed by the Financial Institutions Group.<sup>12</sup>

Projects were then categorised by geographic location, status of the project, type of investment, exclusion of fossil fuels (oil & gas and coal, separately) and exclusion of the higher risk subprojects. Projects whose descriptions did not explicitly rule out fossil fuels or higher risk sub-investments — such as when a project description stated that the project was

not expected to invest in fossil fuels, instead of stating it will not invest in fossil fuels — were considered not to be excluding.

IFC contends that in debt investments we list as not excluding coal, there is a 'defined use of proceeds' stipulation: for example, that IFC's investment should target Small and Medium sized Enterprises (SME), and “thus coal is excluded from financing and explicit language on coal exclusion is unnecessary”.<sup>13</sup> Ring-fencing investments for defined uses is indeed a positive step, but there are questions about how effective IFC's ring fencing can be.

IFC's accountability mechanism, the Compliance Advisor Ombudsman (CAO), has found that IFC does not always adequately track and supervise its ring fencing of SME investments through FIs, with the result that it may end up exposed to high risk sectors. For example, in its Third Monitoring Report of March 2017, which reviewed 38 loans targeting small and medium-sized enterprises, the CAO found the majority were ineffective.<sup>14</sup> As an example: the CAO found an investment in a commercial bank exposed to high risk sectors that was targeted to SMEs. IFC had relaxed its SME definition for this investment to include bigger companies (with annual revenue up to \$60 million). The CAO noted: “Given the expanded definition of SME lending for this project, however, IFC is potentially exposed to higher (E&S) risk sub-projects than would usually be the case for an SME loan. IFC's supervision has not engaged with this issue nor has it considered whether the bank has complied with the restriction against lending to support business activities in the environmentally sensitive region.”<sup>15</sup>

Furthermore, the fact that IFC defines how its own money should be used does not prevent the client funding fossil fuel industries. Because money is fungible, arguably IFC's ring-fencing serves little meaningful purpose because clients are still enabled to continue and even expand their fossil fuel investments. A report into IFC financial intermedi-

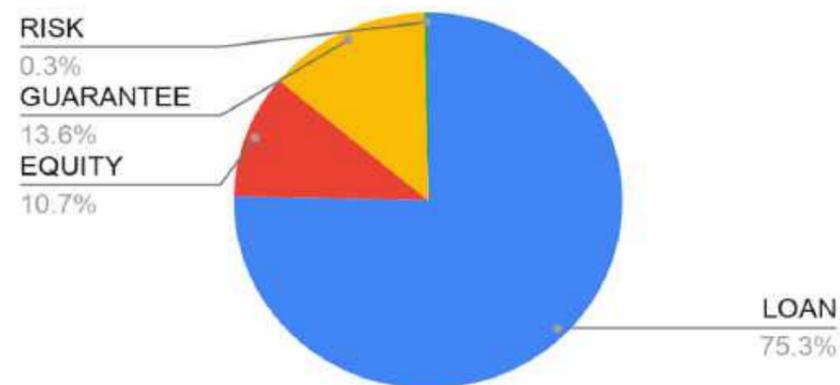
ary investments in the Philippines noted that although two recipients of green-targeted funding from IFC – BDO Unibank and Bank of the Philippine Islands – had indeed used their IFC investment to expand support of renewable energy, both still remained leading funders of coal during that time.<sup>16</sup>

As this analysis relies on publicly available information, it is possible that it is not fully accurate, given problems with the IFC’s portal (e.g. not being updated, not fully reflecting contract terms). So, it is possible that legal contracts with clients (which are not publicly available) could stipulate more or less stringent exclusions. This would explain IFC’s answer to our query over this data that in fact all equity clients exclude coal: “At this point all IFC equity investments in and (untargeted) sub-debt with universal banks as well as equity investments in non-bank financial institutions with coal exposures, and investments within the Distressed Assets Recovery Program are subject to the GEA. In cases where FIs do not have any exposures to coal related projects, at the time of IFC investment, we exclude coal sub-projects up-front.”<sup>17</sup>

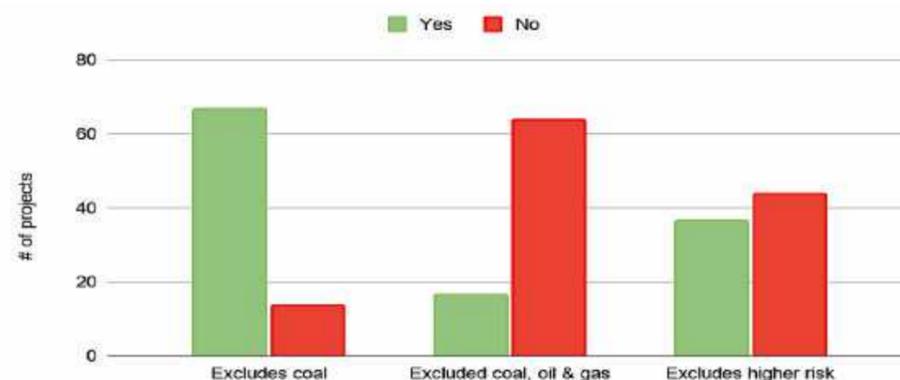
### Headline findings from publicly available information

- Out of 81 high and medium risk FI investments (FI-1 and FI-2 approved and pending), 67, or 83%, exclude coal explicitly;
- Of these 81, 21% - or 17 investments – specifically exclude oil and gas;
- Equity investments make up 25% of the total;
- Of equity investments, 90% excluded coal explicitly and 25% excluded oil and gas;
- Of debt investments, 84% excluded coal and 18% excluded oil and gas.

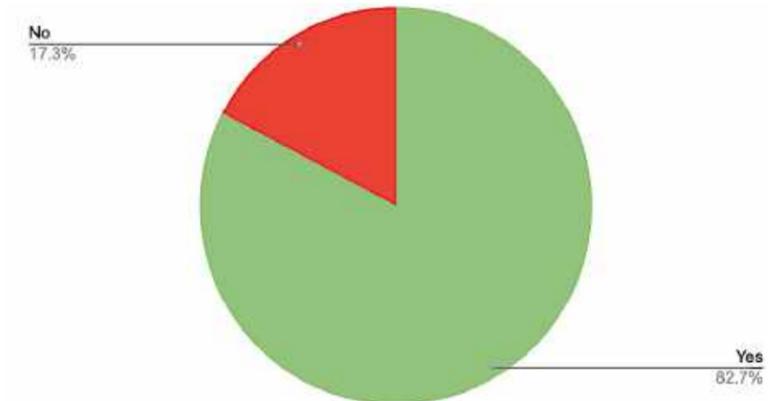
Types of investment (\$) IFC financial intermediary portfolio July 2019 - June 2020



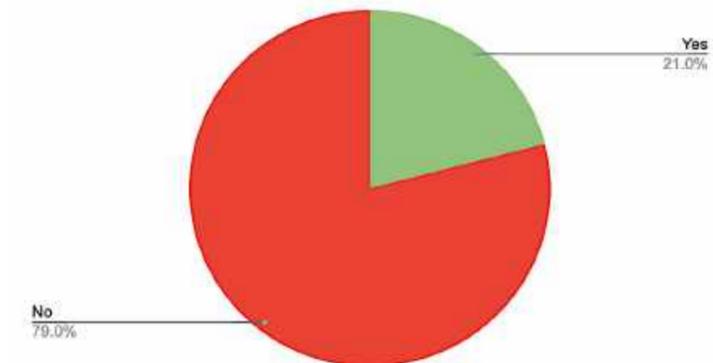
Exclusions: IFC financial intermediary portfolio July 2019 - June 2020



Exclusion of coal (all investment types) IFC financial intermediary portfolio July 2019 - June 20



Exclusion of coal, oil, and gas (all investment types) IFC financial intermediary portfolio July 2019 - June 2020



### Research findings in detail

IFC’s Project Portal listed 80 medium-risk investments (classified FI-2) and one high-risk investment (classified FI-1) for the time period from July 2019 to June 2020, as we began our research in June 2020 (as of September 2020, the number of projects classified as FI-2 appears to have gone down to 78<sup>18</sup>).<sup>19</sup> 41 of these (one FI-1 and 40 FI-2) are currently active, while 10 are pending approval, 15 pending signing and 13 are pending disbursement. Two projects — both FI-2 — have been put on hold.<sup>20</sup>

Since July 2019, IFC has committed a total of \$5,884m to FI-1 and FI-2. The only FI-1 project — part-loan, part-guarantee to a client in Burkina Faso<sup>21</sup> — totals \$200m. This figure amounts to 3.4% of the entire sum of the 81

FI-1 and FI-2 projects for the given time period. The rest (72.6%) is invested in FI-2 projects.

Of the total sum, \$3,786.73m (64.36%) has already been invested — i.e. the project status is currently listed as active. Projects that are pending approval make up 9.43% of the total (\$555m), whilst those pending disbursement and pending signing amount to 14.63% and 10.73%, respectively (\$861m and \$631.36m). The commitment to the two projects that have been put on hold totals \$50m, 0.83% percent of the overall total.

A quarter (24.69%) of the 81 projects are equity investments, categorised as FI-2. These total \$630m, making up 10.71% of the total invested. All of the equity investments appear to have been approved by the Board at the

time of writing: 12 are currently active, two pending signing and five pending disbursement. One project — \$30m for the purchase of an equity stake in a client in India<sup>22</sup> — has been put on hold.

By far the majority of the funding goes towards loans: 48 of the listed 81 projects are pure loans, while two are part-loans, part guarantee, and one project is part-loan, part-risk management. See Table 2.

**Table 2: Types of investment in FI portfolio July 2019-June 2020**

Distribution of funding	
LOAN	\$4,433.58m
EQUITY	\$630m
GUARANTEE	\$800.51m
RISK MANAGEMENT	\$20m

### Coal, oil and gas exclusions

According to IFC's publicly available data, 67 out of 81 projects (82.7%) explicitly exclude coal in the project descriptions, while this number is significantly lower for oil and gas exclusion at 17 out of 81 (21%). Notably, the share of projects which exclude coal goes up in equity investments: 18 out of 20 exclude coal (90%) and 5 also exclude oil and gas (25%). It is important to note that two of the equity investments seem to exclude neither coal nor gas, according to the information available on the IFC's website. These projects are:

41649 TURKEY GROWTH FUND IV L.P.  
43489SP VENTURES GESTORA DE  
RECURSOS LTDA

Regarding these investments, IFC clarified "In case of funds coal-related projects are excluded upfront or IFC has a policy-related excuse right."<sup>23</sup>

The project documentation for the Turkey Growth fund states that it is "not expected to invest to high E&S [Environmental and Social] risk projects and/or to coal mining, coal-related activities and oil and gas projects", but fails to explicitly exclude these.<sup>24</sup> In answer to our query about this investment, IFC replied: "In the case of Turkven, we have not finished the negotiation process that includes also other investors. Our goal is to exclude coal as well as investments in companies exposed to higher risk activities. In the worst case sce-

nario IFC will have an excuse right that will allow us to opt out from such transactions."<sup>25</sup>

SP Ventures II, on the other hand, features an entirely empty E&S Rationale section; there is no information provided on the environmental and social risks of the project. In response to our questions about this investment, IFC replied: "this is a venture capital fund focused on investing in early-stage AgTech startups in Latin America. Coal related projects are not part of the investment strategy of this fund."<sup>26</sup>

Unclear language — i.e. not explicitly excluding fossil fuels or high risk investments — and incomplete project information were problems encountered relatively frequently in the course of the research. In 17 projects, project documentation refrained from an explicit and definitive exclusion of higher risk subprojects through unclear wording in the project descriptions — e.g. not expected to or unlikely to invest in higher risk projects. At least five of the projects did not contain any information regarding the environmental categorisation rationale or the environmental and social impact.<sup>27</sup>

Coal exclusion is somewhat lower among debt clients than among equity clients, at 84.3% (43 out of 51 projects). A further nine debt clients also exclude oil and gas, 17.65%, which is lower than for equity clients.

Just under half of all investments (45.68%), have a clear exclusion of higher risk subproj-

ects but remarkably, this figure is lower for equity clients, with only six out of 20 ruling out higher risk investments (30%). Higher risk investment exclusion is more common among debt clients, with over half (55%) ruling out funding to higher risk sub-projects.

### Summary of findings

It is clear from the data above that IFC's FI portfolio has undergone radical changes from the previous period when it was widely exposed to coal projects all over Asia.<sup>28</sup> Over the last year, IFC has excluded coal power from its business with the vast majority of both its new debt and its new equity clients; and increasingly excludes other fossil fuels, too. This is a positive development, as is the promise to disclose data on how its clients perform in exiting coal investments.

Loopholes remain, however. In light of the climate emergency, it is vital that IFC cease support for all fossil fuels, including oil and gas, and from both its direct and indirect investments. At present, the World Bank's 2018 pledge to end financing for upstream oil and gas<sup>29</sup> does not include indirect financing through FIs — this is nonsensical and must be rectified when the IFC reviews the GEA in 2021. The climate emergency demands nothing less. The new 'Principles for Paris-aligned Financial Institutions', developed by leading climate organisations, state, "potential emissions from coal, oil, and gas already in production would push the world far beyond 1.5°C, and likely even 2°C, so any expansion of fossil fuel exploration or extraction, or expansion of infrastructure that drives continued and expanded extraction, is incompatible with the Paris Agreement."<sup>30</sup> Limiting global warming to 1.5°C requires that a rapid, managed phaseout of existing fossil fuel production and use begin now."<sup>31</sup>

Another loophole in the GEA which leaves IFC exposed to coal, is that the GEA does not apply to investments which promote coal use for industrial purposes. The GEA's definition of 'coal related projects' "excludes captive coal-fired power plants used for industrial ap-

plications such as mining, smelters, cement or chemical industries, etc."<sup>32</sup> This matters since these sectors are responsible for rising emissions; for example, GHG emissions derived from industrial processes, according to the Intergovernmental Panel on Climate Change, accounted for over a fifth of direct global GHG emissions in 2010.<sup>33</sup> As an example of this, Recourse has documented IFC's exposure to a cement plant in Myanmar, financed by the IFC directly and via the IFC Emerging Asia Fund, to increase production of coal fired cement, which is estimated to nearly triple the plant's emissions.<sup>34</sup>

### Greening Equity: a case study of IFC's first GEA client

IFC began piloting the GEA with FI clients in 2019, though the GEA itself was not published until September 2020, following extensive consultation with civil society groups. The GEA currently applies widely: "At this point all IFC equity investments in and (untargeted) sub-debt with universal banks as well as equity investments in non-bank financial institutions with coal exposures, and investments within the Distressed Assets Recovery Program are subject to the GEA."<sup>35</sup>

When the GEA was first developed, IFC selected a client with whom to pilot the approach: PT Bank KEB Hana Indonesia (Hana Indonesia<sup>36</sup>). As the IFC's first GEA client, Hana Indonesia merits scrutiny.

IFC has a long and deep history with the Hana Financial Group<sup>37</sup> - of which Hana Indonesia is a part - stretching back nearly 50 years to 1971.<sup>38</sup> Among the deals that are publicly disclosed are the following: IFC invested \$21.86m equity and \$50m loan in KEB Hana Bank Korea (Hana Korea)<sup>39</sup> in 1998 and another \$50m equity in 2002.<sup>40</sup> In 2007, IFC provided \$5m equity to help Hana Korea set up Hana Indonesia.<sup>41</sup> Two years later, IFC provided a \$15m short-term loan to Hana Indonesia,<sup>42</sup> followed by a \$30m loan for the bank's SME business in 2013.<sup>43</sup> In 2018, IFC invested in KEB Hana Microfinance Myanmar with a \$10m loan and \$3m equity.<sup>44</sup> Finally,

in 2019, IFC provided a \$15.36 equity investment in Hana Indonesia and selected this investment to pilot the GEA.<sup>45</sup>

According to IFC, the reason for piloting the GEA with KEB Hana Bank Indonesia was not related to the size of bank's exposure to coal related projects.

IFC has just disclosed Hana's exposure to coal on its website as follows: "The exposure to coal-related projects as reported by the client as of March 31, 2019 was 2.78% of its total portfolio; in 2019 (as of December 31, 2019) was 1.61% of its total portfolio."<sup>46</sup>

The application of the GEA to an Indonesian bank is significant, as Indonesia is one of the countries in the world whose coal-related emissions are rising most rapidly; simultaneously, Indonesia is highly vulnerable to the effects of climate change. Coal is the single biggest contributor to human-induced climate change: the burning of coal is responsible for 46% of carbon dioxide emissions worldwide and accounts for 72% of total greenhouse gas (GHG) emissions from the electricity sector.<sup>47</sup>

As ever when dealing with commercial banks, it is very difficult to verify information about coal exposure since so little is publicly available about their investments. This is why IFC's commitment in the GEA to disclose this exposure is welcome. From the limited public sources available it does seem that Hana Indonesia's exposure to coal is indeed insignificant, with its main sectoral investments lying in water, gas, electricity; financial intermediaries; construction; and mining.<sup>48</sup>

However, non-public information behind paywalls, available only to those with expensive subscriptions to commercial databases such as Thomson Reuters or Bloomberg, reveals a very different story.<sup>49</sup>

One of Hana Indonesia's investees is PT Toba Bara Sejahtera which operates three vast coal mines in East Kalimantan, Indonesia, covering

approximately 7,087 hectares, with total estimated coal resources of 236 million tons.<sup>50</sup> TBS's annual coal production estimated at 5.5 million metric tons.<sup>51</sup> TBS is also involved in two coal plants currently under construction in Indonesia: the 100MW Sulut 3<sup>52</sup> and the 100MW Sulbagut 1.<sup>53</sup>

In addition, Hana Indonesia has provided loans to PT Kereta Api Indonesia (KAI), which is the main operator of public railways in Indonesia. This rail infrastructure is vital to the expansion of coal mining and power – as described by the head of government-owned coal company PTBA, who stated the company now relies on trains to transport coal from the mining site to the processing plant: "Through the synergy improvement with PT KAI, we believe that we could reach our next year's target. If KAI [is] able to transport more coal, the production realization will be higher than the target."<sup>54</sup> IFC recognises this connection between infrastructure and coal, which is why the GEA defines coal exposure as including "coal mining, coal transportation, as well as infrastructure services exclusively dedicated to support any of these activities, and coal-fired power plants."<sup>55</sup>

Hana Indonesia had already invested in these coal mines, power plants and railways before the IFC began its pilot of the GEA. Given the commitment of the GEA to reduce IFC clients' exposure to coal by 50% by 2025 (or to 5% of total exposure, whichever is greater), it would be surprising if clients committed to fund new coal plants after IFC engagement. IFC explains, "In cases where the client, that is subject to the GEA application but has zero coal exposure in their portfolio at the time of investment, we obtain client's commitment to exclude coal financing going forward as well."<sup>56</sup>

It is therefore surprising to learn that Hana Indonesia, alongside its parent company Hana Korea, is investing in one of the most egregious coal plant complexes in the world: Java 9 and 10 in Indonesia. In July 2020, over a year after entering into the GEA pilot with

IFC, Hana Indonesia provided two tranches of project finance to PT Indo Raya Tenaga, the company developing Java 9 and 10 coal plants (see Box 2).



### BOX 1: Indonesia and the climate challenge

It is fitting that IFC's first client to take on the GEA is an Indonesian bank. Indonesia is both a key player in the global struggle against climate change, while at the same time being highly vulnerable itself to climate change impacts.<sup>57</sup>

As a nation of over 17,000 islands, Indonesia is exceptionally vulnerable to sea-level rise. Already, the country suffers extreme weather events such as floods, tropical cyclones, fires, landslides and heavy rains which result in fatalities and economic losses.<sup>58</sup> Climate change is expected to worsen the intensity, frequency and impacts of such events. Indonesia's disaster mitigation agency, BNPB, has studied how the intensity of disasters, such as floods and droughts, has increased in the past five years, from 1,967 cases nationwide in 2014, to 3,721 cases in 2019.<sup>59</sup>

At the same time, Indonesia's greenhouse gas (GHG) emissions are globally significant and rising rapidly<sup>60</sup>: the country is in the top ten of GHG-emitting nations<sup>61</sup> contributing around 2% to global emissions. Given Indonesia's rapid economic growth, which could see it become the world's fifth largest economy by 2030<sup>62</sup>, the country's GHG emissions, excluding land use, have increased by 90% from 1990 to 2016.<sup>63</sup>

The mining of coal to supply the country's coal-fired power plants, as well as for industry and export, has potentially devastating consequences for Indonesia's forests, environment and people.<sup>64</sup> Coal mining concessions cover approximately 19% of the country's rice-growing area, diminishing prospects for food security. Additionally, around 9% of Indonesia's forests – or 850,000 hectares – are threatened by coal mining.<sup>65</sup>

Indonesia is the world's fifth largest coal producer<sup>66</sup> and has the world's 10th largest coal reserves.<sup>67</sup> Between 2000 and 2014, Indonesia's coal exports quadrupled<sup>68</sup>, and around 80% of coal production was exported, resulting in Indonesia becoming the world's number one thermal coal<sup>69</sup> exporter in 2017.<sup>70</sup> In that year, China was the top buyer of Indonesian coal with 31% of its exports<sup>71</sup>. But with demand from top markets such as China, South Korea and India falling<sup>72</sup>, Indonesia's coal exports are decreasing. In response, the Indonesian government plans to replace this foreign demand with domestic consumption through different measures including reforms to the mining law<sup>73</sup>, the construction of new coal-fired power plants, including mine-mouth plants, and diversifying coal to liquid and gas fuels to replace LPG and gas.<sup>74</sup>

The rapid expansion of Indonesia's coal capacity is being fuelled by finance overwhelmingly from three countries: China, Japan and Korea.<sup>75</sup> It is a similar story throughout Asia. It is clear that, to have a significant impact on the growth of emissions from coal power, engaging with financial institutions from these three countries is vital.

Which brings us back to KEB Hana Bank Korea, the parent company and owner of 69% Which brings us back to KEB Hana Bank Korea, the parent company and owner of 69% equity in Hana Indonesia<sup>76</sup>.

#### KEB Hana Bank Korea and coal finance

KEB Hana Bank Korea is South Korea's fourth largest bank and is, by any measure, up to its neck in coal.

Between 2014 and 2017, Hana Korea invested \$63 million in five companies with a massive coal footprint: Adani Group, China Huaneng Group, China Resources Power, Daewoo Engineering and Construction, and Marubeni Corporation, according to BankTrack research.<sup>77</sup> Data from the country's Financial Supervisory Service showed Hana Korea was the fourth largest funder of coal among South Korea's banks, spending 188 billion won (\$159m) from 2015-2020.<sup>78</sup> Korea Sustainability Investing Forum reports that Hana Korea directly finances the 1,120MW Mong Duong coal plant in Vietnam and the 1,070MW Loy Yang and 850MW Millmerran coal plants in Australia.<sup>79</sup> Hana Korea is also reported to be financing the proposed 1,200MW Vung Ang 2 project in Vietnam.<sup>80</sup>

Currently, Hana Korea invests in several companies with active coal portfolios; its investments in just three of these: Aboitiz, J Power and Arlight, expose it to over 23,000MW of coal-fired power in the Philippines, Indonesia, Australia, China, Japan and the US.

#### Aboitiz in The Philippines

Aboitiz invests in some of the most controversial coal plants in the Philippines, many of which are subject to active local community protests.

*"We used to be able to catch fish closer to the shore but since those power plants were built, the waste may affect the fish, and they went away."*

*- Suralaya fisherman, Ramidin*

These include: 246MW Therma Visayas in Cebu province<sup>81</sup>; 300MW Davao Therma South in Davao del Sur<sup>82</sup>; 1,155MW Pagbilao power station in Quezon<sup>83</sup>; 600MW Mariveles in Bataan<sup>84</sup>; 1336MW Dinginin in Mariveles, Bataan, Luzon<sup>85</sup>; 600MW Subic (Redonondo Peninsula) in Zambales<sup>86</sup>; 311MW KEPCO Naga in Cebu<sup>87</sup>; 232MW Mindanao Steag<sup>88</sup>; and 1235MW Masinloc in Zambales.<sup>89</sup>

#### J Power, Japan

As well as involvement in several coal power plants in Japan totalling over 7,600MW, in China of 3,460MW, and four major coal mines in Queensland Australia, J Power is also one of three companies building what will be Indonesia's largest coal plant, at 2,000MW: the Batang Power Station in Central Java. Together with Itochu of Japan and Adaro Energy Indonesia, J Power provided \$879m in equity for the project, which is nearly complete.<sup>90</sup>

#### BOX 2: KEB Hana Bank Korea, KEB Hana Bank Indonesia and the Java 9 & 10 coal plants, Indonesia

Location: Banten Province, Indonesia

Owner/Operator: PT Indo Raya Tenaga

Size: 2,000 MW  
Estimated Construction Cost: USD 3.5 billion<sup>91</sup>

Expected Commissioning: 2023 (Java 9), 2024 (Java 10)

Sponsors: Indonesia Power (Indonesia's state utility – PLN Subsidiary) 51%; Barito Pacific 34%; Korea Electric Power Company (KEPCO) 15%

Lenders: DBS, Export Import Bank of Korea (KEXIM), K-sure, Korea Development Bank, Hana Bank of South Korea, Bank Mandiri, Bank Negara Indonesia, Exim Bank of Indonesia, Maybank, CIMB, Bank of China, KEB Hana Bank Indonesia

Engineering, procurement and construction: Doosan Heavy Industries; Hutama Karya; Siemens

#### Summary of environmental and social issues:

Java 9 and 10 are two coal-fired plants proposed as an extension to the existing Banten Suralaya power station, a 4,025-megawatt (MW) coal-fired power complex in Banten Province, Indonesia. In July 2020, KEB Hana Korea Bank joined its subsidiary Hana Bank Indonesia and other lenders in providing a \$2.6 billion debt facility for the Java 9 and 10.<sup>92</sup>

The proposed plants are the subject of a petition requesting an injunction to stop Korean banks funding the project, filed by Korean and Indonesian litigants. According to the Asian Peoples' Movement on Debt and Development, the expansion of the plant is predicted to produce on average 10 million tonnes of carbon dioxide per year and 250 million tonnes of CO<sub>2</sub> over 25 years, which would be "equivalent to the annual emissions of Thailand or Spain".<sup>93</sup> The Banten region, where the Suralaya power station is located, is already populated with 52 coal power plants.<sup>94</sup>

The expansion is expected to have extreme adverse effects on the public health of the local community: according to Greenpeace's estimate, pollutant emissions of the two future units will "cause between 80 and 244 additional annual premature deaths in the Indonesian population, accumulating to 2,400 to 7,300 additional premature deaths over a typical 30-year lifetime of coal-fired power plants."<sup>95</sup>

The local population in Suralaya, which is located on the Western tip of Java, Indonesia's most populous island, has already suffered extensive harms from the existing Banten power plants. Local communities express concern that the expansion of the complex will lock the area into even more pollution, whose skyrocketing air and water pollution levels already pose a serious threat to people's livelihoods. Fishing, a source of income and livelihood for many in the area, has already been badly affected by the coal investments in Suralaya.<sup>96</sup>

There are also serious questions regarding the necessity for the expansion: as Australian NGO Market Forces points out, the Java-Bali grid, where the project is located, already has a 99.9% electrification rate. In terms of energy demand, according to the state electricity company PLN's own CEO, the company is currently at over-capacity, with no customers for approximately 40% of the energy produced, which it is obliged to buy under a take-or-pay contract.<sup>97</sup> A report by IEEFA from April 2018 shows government subsidies are the main reason the PLN has managed to stay afloat: without these, it is estimated, PLN would have lost more than \$3.7 billion in just 2016 and 2017 alone.<sup>98</sup>

Sejong Youn, director at South Korea-based climate policy group Solutions for Our Climate (SFOC) commented:

*"These projects will only damage Korea's overseas reputation and have led to people questioning whether Korea's Green New Deal is a farce because carbon emissions from this project will effectively nullify the emission reduction achieved through the initiative. [...] Moreover, this project is expected to bring significant economic loss to the public institutions involved, and it will interfere with the long-needed transition out of fossil fuel-based industry for the Korean companies."*

#### IFC, the Green Equity Approach and leverage

As the owner of nearly 10% equity in Hana Indonesia, IFC could use the GEA to work with the bank to exit coal and direct its investments to more sustainable solutions. Demonstrating the influence of the GEA through its first pilot could send a powerful message to commercial banks and other investors that coal has no future. Going further and engaging with its client's parent, Hana Korea, over its substantial coal exposure would expand the reach and potential of the GEA to be truly transformative.

IFC has been clear in its communication with Recourse that its equity stake in Hana Indonesia does not expose it to Hana Korea's extensive coal investments, "IFC is not exposed to the parent company in Korea" [underlining in original].<sup>92</sup>

This is true in some regards. However, this ignores two important facts. First, it is undeniable that IFC has a long and involved history

of half a century with its client Hana Korea. This includes providing equity to help it set up Hana Indonesia, and IFC sitting alongside Hana Korea as a shareholder in Hana Indonesia (Hana Korea owns 69% and IFC 9.98%).<sup>100</sup> IFC could use this relationship to engage with Hana Korea, as Hana Indonesia's parent, to begin a conversation about coal. Second, through Hana Indonesia and its investment in Java 9 and 10, IFC has a direct interest in what the parent company is doing in that very same country. The spirit and intention of the GEA is to support financial institutions to shift investments out of fossils and into climate finance. In terms of reputational risk, IFC is clearly exposed to Hana Financial Group, so should recognise and act upon its potential for positive influence over Hana Korea, as well over Hana Indonesia.

Yuyun Indradi, Executive Director of NGO Trend Asia says, "It is obvious that the new coal fired power plants Java 9 & 10 will bring more disaster in terms of environmental, social and health issues, as this area has already

been covered with coal fired power plants and industries. It does not need to be burdened with new coal fired power plant projects. The Java and Bali grid is already suffering from 40% oversupply of electricity. Funding such

projects will not help our peoples, our country and our earth. Withdrawal and redirecting the funding for renewable energy is urgently needed."

*"There is so much less fish around the power plant and there is a long line at the hospital because people have skin and respiratory diseases. We really need to stop these new power plants."*

*- Local resident, Wayhudin*

*“Nothing about this project makes common sense. A recent report by the Korea Development Institute showed it will lose project sponsors’ money, it will add to the horrible degradation of air quality and sustainable livelihoods in local communities, and will invite catastrophic climate change.”*

*- Binbin Mariana, anti-coal campaigner*

### Conclusion and Recommendations

The End Coal campaign estimates that, “If plans to build up to 1,200 new coal fired power stations around the world are realized, the greenhouse gas emissions (GHG) from these plants would put us on a path towards catastrophic climate change, causing global temperatures to rise by over five degrees Celsius by 2100. This will have dire impacts for all life on earth.”<sup>101</sup>

Institutions that provide finance to banks in countries where coal-generated power is expanding rapidly, such as in the Philippines and Indonesia, should be doing all they can to support them urgently to switch from fossil fuels – and especially coal – to sustainable renewable energy alternatives. IFC’s GEA is a step in the right direction – but will it be ambitious enough, soon enough?

It is clear that IFC has made great progress in shifting its own FI portfolio away from coal, and increasingly away from oil and gas. This is commendable, as is IFC’s willingness to engage with civil society in drawing up these reforms. However, for the GEA to be truly impactful and for IFC to be a true leader in helping shift finance out of fossils, we need to see faster, bolder action. We stand ready to work alongside IFC to help it make these changes, both in its review of the GEA in 2021 and in any reforms to its guidance on FI investment implementation – the Interpretation Note<sup>102</sup> on financial intermediary lending.

To accelerate the urgent transformation required in international financial flows, IFC should:

- Close the loopholes in the GEA and in debt ringfencing, to exclude all activities that promote use of coal, including for industrial purposes;

- Ensure that the use of funds for targeted debt investments is traceable, reported and disclosed by the FI client, and externally audited (either by IFC or a third-party), with the results of the audit publicly disclosed in order to give the public confidence that IFC investments are being used for their intended purpose;<sup>103</sup>
- Extend the GEA to cover oil and gas, in line with the demands of the ‘Principles for Paris-Aligned Financial Institutions’;<sup>104</sup>
- Engage with existing equity clients to address past harms caused by IFC-backed coal projects, and to exit from future coal plants, in consultation with local communities;
- In the case of RCBC, require it to execute a 2030 phaseout plan for the existing and operating coal plants it has funded in the Philippines, in cooperation with Philippine Movement for Climate Justice;
- Engage with and challenge its client Hana Indonesia over its recent investment in Java 9 & 10 coal plants in Indonesia and to reduce its coal exposure in line with GEA targets by 2025;
- Use its leverage and relationship with Hana Indonesia to influence Hana Korea, to encourage a shift out of coal, in consultation with Korean NGOs, such as Korea Sustainability Investing Forum<sup>105</sup>, and communities threatened by Java 9 & 10 coal plants;
- Carry out an investigation of planned coal plants in Asia and elsewhere which threaten to trigger runaway climate change, analyse which financial institutions are behind this coal expansion, and pledge to work with clients – through existing relationships, the Sustainable Banking Network and other channels – to help redirect finance to positive climate outcomes.

### Endnotes

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Sarphatistraat 30  
1018GL Amsterdam  
The Netherlands  
[www.re-course.org](http://www.re-course.org)