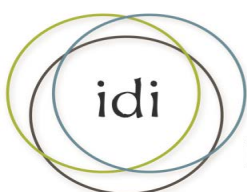


Digging Deeper: Can the IFC's Green Equity Strategy Help End Indonesia's Dirty Coal Mines?



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The International Finance Corporation (IFC), the World Bank's private-sector arm, has [outsourced](#) more than half of its budget, some \$6.4 billion in fiscal year 2018 alone, to clients in the financial sector. These commercial banks, private equity funds and other financial intermediaries then invest or on-lend the money, with limited IFC oversight. This hands-off approach has exposed the IFC to countless projects around the world that have violated human rights, damaged the environment and contributed to global climate change.

Research conducted for this report reveals how this lending model has exposed the IFC to some of the largest and most destructive coal-mining companies in Indonesia. Recently, the IFC unveiled a series of policies designed to cut off such financing for coal, a development that civil society has welcomed. But how will these commitments be implemented in practice, and how will the IFC and its financial-sector clients address the damage they have contributed to in Indonesia?

On a January afternoon in Indonesia's East Kalimantan province, Ramlitun, a 43-year-old hunter and farmer, explained to a foreign visitor the deep connection he felt to the rainforest surrounding his stilt house. Ramlitun is a member of the Dayak Basap people, a group that is indigenous to Borneo, Asia's largest and [most biodiverse](#) island. His community has lived for at least seven generations on a 300-square-kilometer swath of lush jungle near the eastern coast of the island.

"This is our motherland. Our ancestors gave it to us," said Ramlitun, who like many Indonesians goes by one name. "In our culture, I cannot move from this land without their permission. When I die and enter the spirit world, my ancestors will ask me, 'Did you protect the motherland?'"

Until recently, Ramlitun and the approximately 500 residents of his village, Keraitan, had no reason to leave. The forest provided everything they needed: Boar and deer to hunt, water to drink and bathe, and fertile soil to cultivate rice and vegetables. The land gives them more than

just sustenance: It is their cultural and spiritual touchstone.

"Dayak identity is tied to the land," said Morgan Harrington, an Australian anthropologist who lived for a year in a Dayak village. "Ancestor worship is a very strong part of the culture. The point of contact between humans and the spirit world is the land."

But that land is increasingly imperiled by coal mining, which has carved up large tracts of Borneo, threatening the indigenous way of life – and some of the oldest remaining rainforests. Approximately 43% percent of East Kalimantan's surface area, representing a large part of Borneo, has been handed over to mining companies, according to JATAM, a Jakarta-based coal watchdog.

Ramlitun and his community have felt that squeeze. They now find themselves surrounded by Kaltim Prima Coal, one of the world's largest open-pit coal mining operations, which has crept steadily toward their homes. Ten years ago, they were forced to abandon their original village deeper in the jungle after mining encroached.

Now, they once again face an agonizing choice, one that could displace them from their ancestral motherland forever.

If they stay, the mine's impacts will only worsen. Kaltim Prima Coal dumps waste, including heavy metals such as lead, directly into the area's two rivers, destroying fresh water sources, killing fish and diminishing crop yields, according to an impact assessment [conducted](#) by JATAM. The forest is being cut down and disturbed, forcing away the wild game that the Dayak Basap rely on for food. Mining has also altered the hydrology of the area, resulting in more frequent and severe flooding. These impacts are felt far beyond Keraitan village, affecting thousands of people in the wider area, according to JATAM.

Perhaps most distressing for the Dayak Basap is the looming threat of forced eviction. The mining company wants access to their land, which contains large deposits of high-value coal. The villagers say they have been told they will be moved – violently, if needed.

Despite these threats, leaving might be worse. The community has nowhere to go but a resettlement village built by the company far away from their ancestral land. Kaltim Prima Coal apparently envisions the site as a sort of cultural attraction that will allow tourists to observe Dayak Basap life up close. Residents say the new site, which lacks arable land for agriculture and is distant from viable hunting grounds, is wholly unsuited to their way of life. They call it a “cultural prison” that puts them on display for visitors and cuts them off from their lifeblood, the rainforest.

Ramlitun has made his choice. “I will stay. If there is violence, I will fight. I don’t want to live like an animal in a cage,” he said. His neighbors, many of whom tried to live in the resettlement village but returned out of desperation, say they will do the same.

In a post-Paris Agreement world, in which the dangers of coal are [abundant, evident and existential](#), Borneo is a harbinger. Indonesia’s portion of the island, which it shares with Malaysia and Brunei, is ground zero for one of the last remaining efforts to mine coal on a grand scale. Kaltim Prima Coal alone produced 58 million tons of coal in 2018.

With Borneo acting as the national mine, Indonesia is betting its economy on coal. The government is doing this despite signing the Paris



Ramlitun, a member of the indigenous Dayak Basap people, refuses to move to a resettlement site to make way for coal mining. “I don’t want to live like an animal in a cage,” he said. Photo: Inclusive Development International

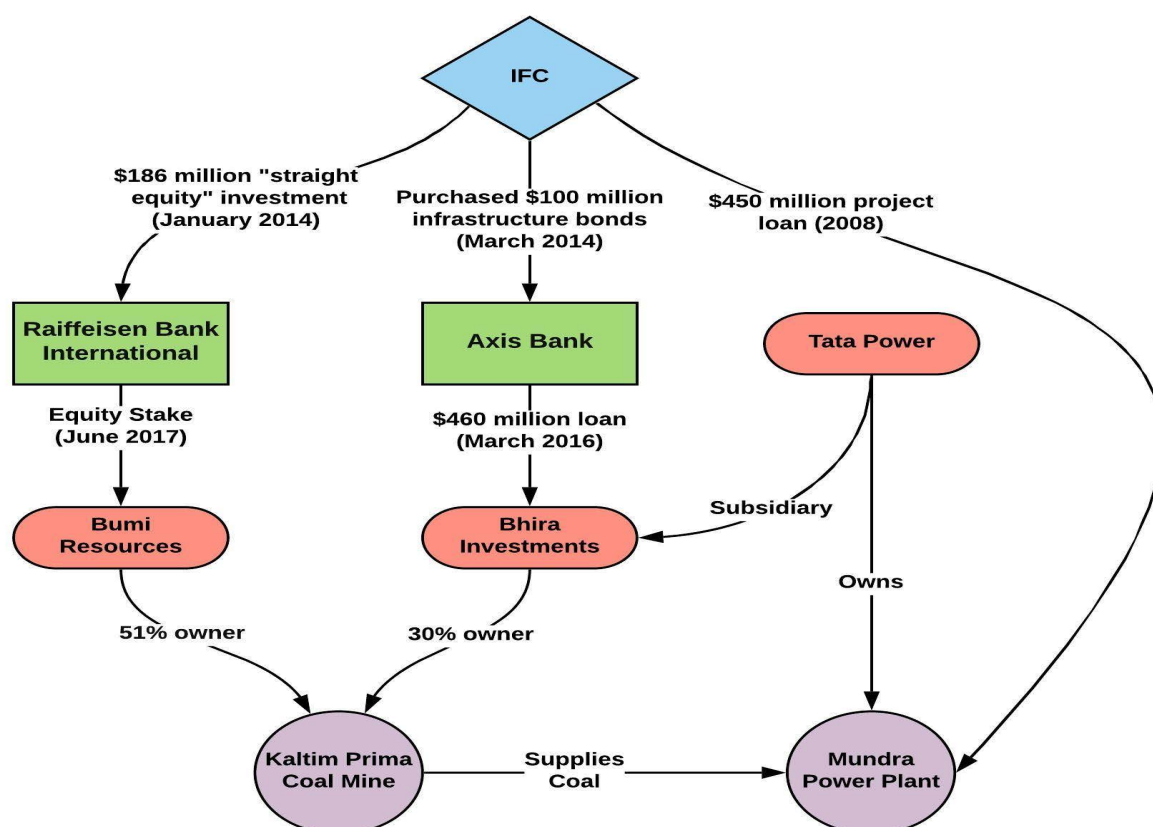
Agreement, and in the face of decreasing global demand for coal and a growing fear of stranded assets, making the sector a risky financial bet. Indonesia has ignored these concerns to [become](#) the world's fifth-largest producer and second-largest exporter of coal. Much of this coal goes to markets in Asia, including China, India and the Philippines, where dozens of new power plants are being built. Increasingly, it is also staying in Indonesia, where it will feed an expanding domestic coal-fired power program.

Jim Kim, the former president of the World Bank, warned about the grave dangers of this Asian coal boom. "If [Asia] implements the coal-based plans right now, I think we are finished," he said. In 2013, the World Bank, the largest multilateral funder of infrastructure, barred direct financing for coal. Many large commercial banks and asset managers have followed suit by introducing their own coal restrictions.

Yet the International Finance Corporation (IFC), the World Bank's private-sector arm, has continued to funnel money to coal despite these rules. This happens out of public view, through the IFC's difficult-to-track investments in com-

mercial banks and private equity funds. (The IFC refuses to disclose to the public the vast majority of end users of its money, citing client confidentiality rules, a justification vigorously challenged by the authors of this report and other civil society organizations.) By outsourcing more than half of its development budget to these financial intermediaries – which then invest the IFC's funds onward with little apparent oversight – the IFC has effectively ceded control over how much of its money is spent.

This lack of oversight has left the IFC heavily exposed to Indonesia's coal industry. Research conducted for this report reveals that the IFC has indirectly financed six large companies active in coal mining in Indonesia. Collectively, these companies produced 227.1 million tons of coal in 2017, according to [data](#) from Urgewald's comprehensive Global Coal Exit List. When fed into power plants, this coal would generate approximately 457.9 million tons of carbon dioxide emissions, according to a U.S. Environmental Protection Agency calculator that uses a typical U.S. coal plant as a baseline. If these emissions were generated by a country, it would be the world's 12th-largest carbon





Coal mining threatens Indonesian Borneo's globally important biodiversity, including its endangered population of orangutans. Photo: Shutterstock.com

[emitter](#), ahead of Brazil, according to European Commission data.

additional shares to other investors as a result of the IFC's seal of approval.

Kaltim Prima Coal, the mining operation ravaging East Kalimantan's rainforest and squeezing the Dayak Basap, is one such company. The IFC is exposed to the mine through not one but two financial intermediaries, illustrating the scale and depth of the problem. These IFC commercial bank clients have participated in hundreds of millions of dollars of financing for companies that own 81% of Kaltim Prima Coal. The IFC also financed a power plant that is the primary buyer of coal from the mine.

The first of these clients is Raiffeisen Bank International, Austria's second-largest commercial bank. The IFC [bought](#) \$186 million worth of shares in Raiffeisen Bank in January 2014. The deal, a "straight equity" investment, was designed at least in part to help [bail out](#) the Austrian bank from troubles stemming from the 2008 financial crisis. The equity purchase signaled to the wider market that the World Bank Group viewed Raiffeisen Bank International as a safe bet. The Austrian bank went on to successfully sell nearly \$3.9 billion worth of

As an IFC client, Raiffeisen Bank International became closely involved with Bumi Resources, Indonesia's largest coal mining company and the 51% [owner](#) of Kaltim Prima Coal. Six months after the IFC bought shares in Raiffeisen Bank International, it [provided](#) Bumi Resources with an \$80 million credit facility to help the company [increase](#) its ownership stake in Kaltim Prima Coal.

The bank provided this loan despite widespread reporting at the time in the media and by NGOs about the human rights and environmental problems associated with Kaltim Prima Coal. These harms were clear violations of the IFC's social and environmental Performance Standards, which both Raiffeisen Bank International and Kaltim Prima Coal are required to follow.

From a business perspective, the loan turned out to be a poor move by Raiffeisen Bank International. Bumi Resources [defaulted](#) just five months later. Riddled with debt problems driven by a drop in coal prices, the company

was forced to [restructure](#) in an attempt to pay off its creditors. In exchange for cancelling the loan, Raiffeisen Bank acquired a 2.38% equity stake in Bumi Resources and took on further debt securities issued by the company. Through this equity investment, Raiffeisen Bank International, and in turn the IFC, became exposed to Bumi Resources' entire portfolio of mines.

In response to the findings outlined in this report, the IFC did not dispute that it was exposed to Kaltim Prima Coal through its investment in Raiffeisen Bank International. In an emailed statement, the IFC said that its investment in Raiffeisen Bank "was done with the condition that it be down-streamed" to the bank's subsidiaries in Russia, Bosnia, Kosovo and Poland. The statement added: "The IFC investment was recorded as a capital increase in each of these subsidiaries."

However, the fact remains that the IFC is a shareholder in Raiffeisen Bank International and owns a proportional stake in all of the bank's business, including its loan to Bumi Resources. The IFC is also exposed to other problems in the bank's portfolio, including alleged [links](#) to Russian money laundering and questions [raised](#) by the U.S. Congress about the bank's role in financing a failed Trump Tower in Canada.

Another IFC client, Axis Bank of India, is also closely linked with Kaltim Prima Coal. In March 2014, the IFC [bought](#) \$100 million worth of bonds issued by Axis Bank. The bonds were designed to raise capital for Axis Bank to lend to infrastructure projects and affordable housing, according to IFC disclosures and an Axis Bank [circular](#) describing the deal. The IFC [noted](#) that the investment in Axis Bank was high risk, because it could expose the IFC to sectors including mining that have a high potential for negative environmental and social impacts.

Those concerns proved to be prescient. Two years after becoming an IFC client, Axis Bank joined a syndicate of banks that [loaned](#) \$460

million to Bhira Investments Limited, a subsidiary of the Indian energy conglomerate Tata Power. Bhira Investments is the second-largest [owner](#) of Kaltim Prima Coal, with a 30% stake.

In response to these findings, the IFC contended that Axis Bank was required to use the proceeds from the infrastructure bond issue only for on-lending to projects within India. But the IFC did not provide evidence of this geographical limitation. Axis Bank's bond offering circular merely states that the proceeds of the bond issue "shall be used for enhancing long term resources for funding infrastructure and affordable housing."

The IFC's exposure to Kaltim Prima Coal goes beyond these financial intermediary relationships and includes a supply-chain relationship. Tata Power's primary motivation for investing in the Indonesian mining project was to ensure [a steady supply](#) of coal for its controversial Mundra power plant, located on India's northwest coast. In 2008, the IFC [loaned](#) \$450 million to a Tata Power subsidiary to develop Mundra, which has had devastating impacts on the area's ecology and fishing communities, according to an [investigation](#) by the IFC's independent watchdog. The plant was the subject of a recent case heard by the U.S. Supreme Court, in which local farmers and fishermen affected by the project [successfully challenged](#) the IFC's absolute legal immunity in the United States. The IFC's rules require its clients, like Tata Power, to ensure their suppliers are not destroying critical habitats, like Borneo's jungles.

The IFC is also indirectly financing Toba Bara, a coal producer ultimately owned by one of the most powerful men in Indonesia, Coordinating Minister of Maritime and Resources Luhut Binsar Pandjaitan. KEB Hana Indonesia - an Indonesian commercial bank that the IFC helped [establish](#) partially [owns](#) and has [substantially funded](#) - has [loaned](#) money to Toba Bara. The relationship exposes the IFC to alleged corruption and illegal mining practices, as set out in the recent [report](#) "Coalruption: Elite Politics in

the Coal Business Vortex” released by a coalition of NGOs. In the report, Minister Luhut is accused of using his connections with the country’s political and military elite to help his companies, including Toba Bara, evade mining laws and other regulations.

The capture of Indonesia’s democracy by corporate coal interests is especially evident as the country prepares for national elections in 2019. The two major candidates for president are backed by IFC-linked coal investments, [according](#) to JATAM. The campaign for the incumbent, Joko Widodo, is backed by Minister Luhut and Toba Bara. Meanwhile, a founder of Saratoga Capital, the IFC client that invested in Adaro Energy, is Sandiaga Uno, the vice presidential running mate of the leading challenger, Prabowo Subianto Djojohadikusumo. “The IFC is exposed not only to coal, but to Indonesia’s power politics,” said Merah Johansyah of JATAM.

The IFC also has historic exposure to Indonesia’s second-largest coal producer, Adaro Energy, through an Indonesian private equity fund called [Saratoga Asia II](#). The IFC still holds a stake in the fund, but it has divested from Adaro Energy, according to the IFC.

These IFC-linked companies have wreaked havoc on Indonesia. The coal industry has expanded rapidly over the past decade, driven in part by political decentralization, which transferred the power to grant certain mining concessions from Jakarta to the local level. The number of mining licenses has skyrocketed, creating a range of problems, including large-scale deforestation, corruption and illegal mining, according to an [analysis](#) by the Stockholm Environment Institute.

This has had devastating consequences for Indonesia’s people and environment. Coal-mining concessions now cover 19% of the country’s rice-growing area, seriously [diminishing](#) the ability of the nation, a net rice importer, to feed its people. Coal mining also threatens the

rich biodiversity of an archipelago that is [home](#) to between 10% to 15% of all known plant, mammal and bird species.

The effects of coal mining reverberate far beyond Indonesia. An estimated 850,000 hectares of the country’s rainforest — representing 9% of the nation’s forest cover — are threatened by coal mining, according to a [report](#) by Fern. This destruction of rainforests, an important source of carbon sequestration, combined with the emissions generated by power plants supplied by Indonesian coal, are helping to fuel global climate change.

Increasingly, Indonesia is making plans to burn its coal at home. With the regional appetite for coal declining, and international coal prices volatile, the government has sought to insulate local producers from uncertainty by building out the domestic generating capacity. The Ministry of Energy plans to [expand](#) coal-fired capacity by some 22 gigawatts. This will lock Indonesia into coal for decades to come.

The government is doing this despite Indonesia having some of the [best](#) renewable energy potential in the world. (One [analysis](#) found that the country could supply electricity to its entire population by installing solar panels on just 0.1% of its land area.) If the country does follow through with these coal expansion plans, the number of Indonesians who die prematurely from exposure to coal particulates could rise to 28,300 per year, according to an [analysis](#) by Greenpeace.

Given these dangers, there is arguably no greater threat to the Indonesian people than coal mining. “Pollution, climate change, land conflict: Coal isn’t just dirty, it’s deadly for Indonesia,” said Pradarma Rupang, the East Kalimantan representative of JATAM. “The World Bank can have no justification for backing these companies,” he added.

For the IFC, Indonesia is just the tip of the iceberg. The problems with the institution’s



The IFC's financial intermediary lending has exposed the World Bank Group to coal projects around the world, including in the Philippines, where public opposition to new coal plants is strong. Photo: Philippines Movement for Climate Justice

financial-sector portfolio are systemic and run deep. A few years ago, the issue was not fully understood by the public, which knew of only a handful of cases in which IFC was exposed to companies that were causing harm to people or the environment through financial intermediaries.

In mid-2016, the authors of this report, Inclusive Development International and Bank Information Center Europe, led a coalition of concerned civil society organizations in an effort to better understand the scale of the problem. Using specialized financial databases and public information sources, we began tracking the IFC's money through its commercial bank and private equity clients down to the end users. The research was time consuming and complex. But we uncovered an extensive body of [evidence](#): More than 150 IFC sub-clients and projects involved in a range of harmful activities around the world, including land and resource grabbing, intimidation and violence, and pollution and environmental destruction.

A troubling trend emerged in this research:

More than half of these projects involved coal. In countries throughout Asia, Africa and beyond, the IFC's financial-sector clients have funded some of the largest and most notorious coal projects and companies on the planet.

In the [Philippines](#), two IFC-backed commercial banks, Rizal Commercial Banking Corporation and BDO Unibank, helped to finance a major expansion of coal-fired power capacity, threatening an island nation that is extremely vulnerable to climate change. Using this information, more than 100 civil society groups and directly affected communities in the Philippines filed a mass [complaint](#) to the IFC's independent watchdog, the Compliance Advisor Ombudsman (CAO). The complainants are demanding that the IFC be held accountable for the contribution it has made to the looming climate change crisis, as well as the adverse localized impacts of the coal plants. The CAO found the case eligible for investigation in relation to eleven coal plants linked with Rizal Commercial Banking Corporation. (The IFC divested its equity stake in BDO Unibank prior to the filing of the complaint).

to addressing the issues.

In South Asia, six Indian commercial banks have provided loans, arranged and purchased debt securities, and own equity in a “[dirty dozen](#)” of harmful corporations, including some of India’s largest coal companies. (The IFC severed ties with four of these commercial banks after the links were exposed) One of these Indian coal companies, NTPC, is co-developing the notorious [Rampal](#) coal plant in Bangladesh, which experts say will decimate the largest remaining mangrove forest and spur a climate refugee crisis. The IFC’s coal exposure extends to other countries with power expansion plans, such as Vietnam and Kenya.

After initially downplaying these findings, the IFC has begun to acknowledge that it has a coal problem. The appointment of Philippe Le Houérou as CEO in 2016 was a watershed. Le Houérou has been particularly vocal about the need for change. He wrote a [series](#) of frank [blog posts](#) acknowledging that the IFC “must do better” with its financial intermediary business. Campaigners have noticed a shift in tone from IFC officials, who have become more amenable

Le Houérou’s words were promising – and necessary. But without concerted action, they will amount to little. We have called on the IFC to introduce concrete policy measures to ensure that the institution’s financial-sector investments don’t fuel the coal boom and instead flow only to projects that support the institution’s mandate to alleviate poverty through sustainable development.

In 2018, at the World Bank’s annual meetings in Bali, IFC officials began to discuss plans that would give shape to Le Houérou’s call to action. They talked of a “green equity” strategy that would use the IFC’s influence and ownership stakes to drag commercial banks away from financing coal and push them toward renewable energy. Officials also extolled the effectiveness of applying “ring fences” to loans that direct IFC capital to specific end uses, such as small businesses and renewable energy.

If Indonesia illustrates the extent of the IFC’s coal problem, it also offers an opportunity to



The IFC recently announced new policies designed to cut off its support for coal. Civil society groups have welcomed the move but say the policies are only as effective as their implementation. Photo: Inclusive Development International

assess these new commitments. Nearly all of the IFC's investments discussed in this report came before the recent commitments. (The exception is a rights issue by KEB Hana, which the IFC Board [approved](#) in March 2019 but has yet to be disbursed.) If such commitments had been applied to these Indonesia-related investments, how would they have altered the IFC's coal exposure? Although these policies are still being shaped, the early indications are that they will have a substantial positive impact – but only if they are accompanied by transparency, third-party monitoring and verification, and, ultimately, unfettered public accountability.

The Green Equity Strategy

The impetus behind the green equity strategy is logical. The IFC contends that it can have a greater impact on the energy portfolio of banks, and in turn move the financial sector away from coal, by engaging rather than blacklisting them. In exchange for an IFC equity investment, client banks would have to commit to decarbonizing their lending books and shifting capital toward green energy. The strategy would have clearly defined targets that become stricter over time, with the ultimate goal of zero coal exposure by 2030. Banks that fall short of these targets would presumably be met with IFC divestment (though this has not been stated explicitly by the IFC).

The draft green equity strategy only loosely defines coal exposure, however, and more details are needed. Without a clear definition that goes beyond project finance to account for the many ways in which banks fund coal, IFC clients could in theory meet the green equity targets while still funneling substantial capital to coal. This can be seen with the two relevant Indonesia examples, Raiffeisen Bank International and KEB Hana Indonesia, in which the IFC holds equity stakes.

Both banks have provided general corporate loans to coal companies operating in Indonesia. This is important, because [some 92%](#) of the financing that banks provide to coal de-

velopers around the world comes in the form of corporate loans, which gets channeled into project development costs in the form of equity subscriptions and shareholder loans to joint ventures. In order to account for this flow of capital, we have called on the IFC to move beyond pegging coal exposure only to project finance for plants and mines.

We are [calling](#) on the IFC to adopt the criteria used by the German non-governmental organization Urgewald to create the [Global Coal Exit List](#), a comprehensive database of coal producers and power developers around the world. The list includes companies that meet one of several [criteria](#), including the percentage of its revenue that comes from coal and the size of its coal production or electricity generation capacity. When an IFC bank client provides corporate loans to these companies, those deals must count toward the bank's coal exposure targets. In addition, coal exposure must include finance for associated facilities that are necessary to the successful operation of coal plants and mines, such as transmission lines and railways.

We are also [calling](#) on the IFC to tighten the timelines in its green equity strategy, so that they are commensurate with the urgency of the climate crisis. The IFC should divest from all existing equity clients with coal exposure by 2022, unless these clients develop a decarbonization plan and commit to not participating in new coal-related financing by 2025. For new equity clients, the restriction should be tighter, because the IFC has more leverage. The IFC should only invest in new clients with a maximum 15% of coal exposure, and if the client agrees to put in place a decarbonization plan that will result in coal exposure being reduced to zero by 2025.

In response to the findings outlined in this report, the IFC and Raiffeisen Bank International both outlined the steps the bank has taken to move away from coal. In an email, the IFC stated: "In 2016, based on IFC's recommendation,

RBI developed and approved a new Coal Policy at the group level, which included a ban on new relationship customers in thermal coal mining; only selective participation in the financing of coal power plants, and based on positive environmental impact management of such projects; a focus on financing of renewable energy projects; and significant reduction of overall exposure to thermal coal and thermal coal trading assets within the next 3-5 years.” However, these commitments would not require Raiffeisen Bank International to divest from Bumi Resources.

The IFC said it was making similar efforts with KEB Hana. The bank’s current total exposure to coal is 1 percent, according to the IFC. As part of negotiations on the IFC’s latest proposed investment in the bank, the IFC said it “would be limiting exposure to coal projects going forward.”

These are positive developments. Yet the effectiveness of the green equity strategy ultimately depends on the IFC’s ability to hold banks to such commitments. The IFC must be clear eyed and principled about this strategy, which means being prepared to divest its stake in banks that don’t make a firm commitment to meet the targets or do not follow through on those commitments.

Ring Fencing

Evaluated through the lens of Indonesia, the ring-fencing commitment is more problematic, in large part because the IFC has such a troubled track record with the practice. For years, IFC officials have extolled the effectiveness of applying ring fences to IFC loans to commercial banks, thus ensuring – in theory, at least – that the banks could only on-lend the money for specific development purposes, such as small businesses and renewable energy. The IFC claims that it has ring fenced [95% of its transactions](#) in recent years. By applying these ring fences, the funds should be insulated from coal – again, in theory.

The IFC is more explicit about its new approach in its latest [Interpretation Note](#) for financial intermediaries, issued in November 2018. The IFC notes that “in case of any targeted products,” i.e. ring-fenced loans, “IFC will exclude coal related sub-projects including coal mining, coal transportation or coal-fired power plants, as well as infrastructure services exclusively dedicated to support any of these activities.”

But these ring-fences and exclusions are only as effective as their implementation. And the IFC’s independent watchdog, the Compliance Advisor Ombudsman, has found serious flaws with how the IFC implements ring fencing. In a review of 38 loans targeting small and medium-sized enterprises, the Compliance Advisor Ombudsman [found](#) that the vast majority were ineffective. These deals lacked legal enforceability and traceability, the two cornerstones of an effective ring fence.

(The development effectiveness of applying ring fences may be just as dubious. In an example analyzed for this report, the Vietnamese lender VP Bank, an IFC financial intermediary, actually *decreased* the relative size of its small business portfolio after receiving an IFC loan intended to increase lending to small and medium-sized enterprises.)

The IFC claims to have ringfenced several of the investments discussed in this report. Closer inspection of one the deals, the IFC investment in Axis Bank, reveals problems with the IFC’s approach.

The details of the deal are clear: The IFC bought \$100 million worth of bonds issued by Axis Bank in 2014. The bonds were issued to raise capital for Axis Bank to lend onward to infrastructure and affordable housing, as stated in both the IFC’s project disclosure [portal](#) and an Axis Bank [circular](#). Given that infrastructure was a targeted end use of the bond issue, the IFC classified its investment as high risk, because of the bank’s exposure to mining and other sectors with negative environmental and



Kaltim Prima Coal built a resettlement site for villagers it seeks to displace. But few residents were able to make ends meet there. The resettlement site is now largely abandoned. Photo: Inclusive Development International

social impacts.

Elsewhere, the IFC contradicts these facts. A tab on the IFC's disclosure portal, entitled Use of Proceeds/Beneficiaries, describes the same investment in Axis Bank in completely different terms: a "straight senior loan" targeting small and medium-sized enterprises. The IFC recently added this piece of information to the project portal. When asked about this, the IFC said that it had mistakenly added this information to its website and would remove it.

In response to questions about this transaction, the IFC asserted that the proceeds from the Axis Bank bond issue could only be used to finance projects in India. However, there is no mention of these restrictions in Axis Bank's bond offering circular. Even if there were, the IFC would have found it extremely difficult to hold Axis Bank accountable for how it used the capital. [Extensive reporting](#) in the [media](#) on the green bond sector has shown how common and easy it is for banks to use capital from bond issues as they please, with little oversight, regardless of what pledges they may have made in offering prospectuses.

Given these problems, we have [called](#) on the IFC to take several steps to ensure its ring fences are effective – and fit for purpose. The IFC must disburse its money into designated accounts exclusively reserved for targeted sectors, such as renewable energy or small businesses. In addition, ring-fencing terms should be included in loan agreements, making them legally enforceable. Finally, the use of such funds should be disclosed publicly and audited by a third party, at minimum on a yearly basis.

As Le Houérou and other IFC officials [discussed](#) the new coal commitments in Bali, a short flight across the Java Sea in East Kalimantan, the sun began to set on Mattirowali, the resettlement site built by Kaltim Prima Coal. The new village was eerily empty. The signs of life that mark a typical village in Southeast Asia – the motorbikes buzzing down dirt lanes, the vendors shouting their wares, the roosters crowing in the yards – were absent. Clumps of overgrown foliage crowded the houses, which were built in close proximity and were mostly silent. A cement volleyball court that had been constructed in the center of the village was

cracked and warped.

A lone woman shuffled by. “There is no way to make a living here. I don’t know how much longer we can last,” she said, asking not to be identified.

Mattirowali was not always so desolate. Starting in 2014, a large number of families relocated here, calculating that they had little to lose – the mine was only getting closer. But the move did not go well for most of them. Few have stayed.

“The houses were new and made of good material. But we couldn’t eat the houses. We were starving,” said Maya, a farmer and mother who recently moved away from the resettlement site with her husband and children.

Residents say Kaltim Prima Coal initially offered families willing to relocate a package deal: Lump sum compensation, a replacement house and land, and a stipend to help them get back on their feet. Over time, however, the company apparently has rescinded much of that deal.

Residents say that Kaltim Prima Coal’s current offer, which is apparently non-negotiable, is a replacement house and a two-hectare plot of land – far less than most currently possess.

As the incentives to leave have decreased, Kaltim Prima Coal and the authorities have steadily ratcheted up the pressure to move, say villagers. The local health center and primary school are no longer staffed, and the company has refused to repair an electricity generator it donated to the village, depriving residents of their only source of power. And then, they say, came the threats of violent eviction.

Residents say the company is taking advantage of their relative powerlessness as indigenous people. “The Dayak people are considered inferior by those in the political and cultural majority,” said Harrington, the Australian anthropologist. “The word Dayak means ‘upriver’ in Bahasa. It used to be tantamount to calling someone a hillbilly, although the Dayak have reclaimed the term and now use it with pride.”



Approximately 43% percent of the surface area of East Kalimantan, an Indonesian province on Borneo, has been handed over to mining companies, according to JATAM, a Jakarta-based coal watchdog. Photo: JATAM

Although there are domestic laws protecting indigenous people and forests, enforcement is weak. “We Dayak Basap are isolated from Indonesian culture. It is difficult for us to stand up for our rights,” said Gagai, the village chief.

Because they are affected by the IFC’s business activities, the Dayak Basap are entitled to a set of protections that exist outside of Indonesian law, the IFC’s social and environmental Performance Standards. The community also has the right to access the Compliance Advisor Ombudsman, the IFC’s independent grievance mechanism, which handles complaints from people affected by the IFC’s business activities.

In order to exercise those rights, the Dayak Basap would have had to know that the IFC is backing Kaltim Prima Coal. Acquiring that information would have been no easy matter for a community that does not speak English; lacks access to electricity; has no reliable internet connection or mobile phone signal; and has little exposure to financial concepts. Indeed, few communities around the world that are impacted by the IFC’s financial-sector investments possess these things.

The Dayak Basap learned that they were affected by the IFC investments after a researcher from Inclusive Development International, which has expertise conducting financial investigations, visited them. The 16,000-kilometer journey from the United States to Keraitan involved four days of travel, culminating in a stretch of rutted, washed-out dirt road that passed through three security checkpoints manned by mining personnel.

Several residents of Keraitan were perplexed to learn that the IFC had indirectly backed Kaltim Prima Coal. “Why would the World Bank get involved in a project that is stealing our land?” asked Ramlitun, the hunter and farmer.

Merah Johansyah, the national secretariat of JATAM, the coal-mining advocacy organization, has worked closely with the community for

years. Johansyah was displaced by a coal mine, so the work is personal. In Kaltim Prima Coal, he sees a company that is emblematic of an entire industry.

“This is a company that talks a lot about community relations. They say they’ve spent a lot of money on community development,” he said. “But like many coal mining companies, Kaltim Prima Coal is actually increasing local conflict. They are using the military and state security apparatus in conjunction with their operations. Violence and intimidation toward communities is standard.”

The residents of Keraitan have tried to resist the mining behemoth, even attempting to block the road used by the company’s trucks. But the power imbalance between a group of indigenous villagers and Indonesia’s largest mining operation is extreme.

“This is a conspiracy involving the government, the company and the banks against a small community. The community is not just fighting a coal mining company, they’re taking on half of the world,” Johansyah said.

That the World Bank Group would get involved in such a project infuriated him. “The World Bank’s money is funding the destruction of an entire indigenous people’s way of life,” he said. No amount of new climate commitments, no matter how well-intentioned and effective, will help the Dayak Basap.

“The World Bank helped create this mess,” he said. “It has a responsibility to help fix it.”

IFC Exposure to Indonesian Coal Mining

Company/Project	IFC Links to FI	FI Links to Company
<p>Kaltim Prima Coal, an Indonesian joint venture that operates the world's largest open-pit coal mine. The Indonesian coal-mining conglomerate Bumi Resources owns 51% of the project. Bhira Investments Limited, a subsidiary of India's Tata Power, owns 30% of the project. Tata Power supplies its controversial Mundra power plant with coal from the mine.</p> <p>Total annual coal production: 57.7 million metric tons.</p>	<p>January 2014: IFC made a \$186 million "straight equity" investment in Raiffeisen Bank International.</p> <p>March 2014: IFC bought \$100 million worth of Axis Bank bonds. The bonds will raise capital for Axis to lend to infrastructure projects and affordable housing, according to an offering circular. IFC characterized the investment as high-risk because of potential exposure to mining and other sectors.</p>	<p>June 2014: Raiffeisen Bank International provided a three-year, \$80 million credit facility to Bumi Resources to fund its acquisition of additional shares in the Kaltim Prima coal mine.</p> <p>November 2014: Bumi Resources defaulted on that loan.</p> <p>June 2017: Bumi Resources restructured in an attempt to pay off its creditors. Raiffeisen Bank International converted its Bumi debt into an equity stake in the coal company and also acquired debt securities.</p> <p>March 2016: Axis Bank was a lead arranger in a deal to refinance a \$460 million loan Bhira Investments Limited, the Tata Power subsidiary that holds a 30% stake in Kaltim Prima Coal. The refinanced loan is due to mature in March 2021. Bhira Investments Limited is an investment holding company incorporated in Mauritius.</p>
<p>Bumi Resources, Indonesia's largest coal mining company. Bumi is currently operating eight coal mines through its subsidiaries and joint ventures. Bumi Resources owns 51% of the Kaltim Prima Coal project.</p> <p>Total annual coal production: 86.5 million metric tons</p>	<p>January 2014: IFC made a \$186 million "straight equity" investment in Raiffeisen Bank International. This investment is active.</p>	<p>June 2014: Raiffeisen Bank International provided a three-year, \$80 million credit facility to Bumi Resources to fund its acquisition of additional shares in the Kaltim Prima coal mine.</p> <p>November 2014: Bumi Resources defaulted on that loan.</p> <p>June 2017: Bumi Resources restructured in an attempt to pay off its creditors. Raiffeisen Bank International converted its Bumi Resources debt into an equity stake in the coal company and also acquired debt securities, exposing the IFC to the entirety of Bumi's business activities.</p>
<p>Tata Power, an India-based electric company with additional operations in a number of other countries. In Indonesia, Tata Power is involved in coal mining through a 30% stake in PT Kaltim Prima Coal and a 26% stake in PT Bara-multi Sukessarana Tbk. Through Kaltim Prima Coal, Tata Power is also involved in the Citra Kusuma Perdana 54-megawatt coal fired captive power consumption project.</p> <p>Total annual coal production: 26.4 million metric tons</p> <p>Total installed coal power capacity: 6.42 gigawatts</p>	<p>March 2014: IFC bought \$100 million worth of Axis Bank bonds. The bonds will raise capital for Axis to lend to infrastructure projects and affordable housing, according to an offering circular. IFC characterized the investment as high-risk because of potential exposure to mining and other sectors.</p>	<p>March 2016: Axis Bank was a lead arranger in a deal to refinance a \$460 million loan Bhira Investments Limited, the wholly owned Tata Power subsidiary that holds a 30% stake in Kaltim Prima Coal. The refinanced loan is due to mature in March 2021. Bhira Investments Limited is an investment holding company incorporated in Mauritius.</p>

<p>PT Toba Bara Sejahtera Tbk, a major Indonesian coal producer. The company has three mines in Sangasanga, Kutai Kartanegara, and East Kalimantan.</p> <p>Annual coal production: 5.5 million metric tons</p>	<p>December 2007: IFC made a \$5 million equity investment which, combined with an investment from South Korea's Hana Bank, was used to acquire the Indonesian bank PT Bank Bitang Manunggal. The IFC remains a shareholder in the resulting PT Bank KEB Hana Indonesia.</p> <p>July 2010: IFC provided a \$15 million short term finance facility to PT Bank KEB Hana Indonesia. The investment was intended to "support its long-term partner, particularly in: - Strengthening Hana Indonesia's position in trade finance; and - Supporting the pre-export, post-export, and working capital financing needs of Hana Indonesia's clients, export oriented SMEs."</p> <p>February 2014: IFC made a \$30 million investment to support PT Bank KEB Hana Indonesia's lending to small and medium sized enterprises.</p> <p>March 2019: The IFC Board approved an additional equity investment of PT Bank KEB Hana Indonesia shares of up to \$15 million. The equity investment is currently pending singing.</p>	<p>November 2018: PT Bank KEB Hana Indonesia participated in a syndicated loan of \$120 million to PT Toba Bara Sejahtera Tbk. The loan is set to mature in June 2022.</p>
<p>PT Samindo Resources Tbk, an Indonesian coal mining and services company. Although focused mainly on mining services, Samindo Resources is currently pursuing a coal mining acquisition plan.</p>	<p>December 2007: IFC made a \$5 million equity investment which, combined with an investment from South Korea's Hana Bank, was used to acquire the Indonesian bank PT Bank Bitang Manunggal. The IFC remains a shareholder in the resulting PT Bank KEB Hana Indonesia.</p> <p>July 2010: IFC provided a \$15 million short term finance facility to PT Bank KEB Hana Indonesia. The investment was intended to "support its long-term partner, particularly in: - Strengthening Hana Indonesia's position in trade finance; and - Supporting the pre-export, post-export, and working capital financing needs of Hana Indonesia's clients, export oriented SMEs."</p> <p>February 2014: IFC made a \$30 million investment to support PT Bank KEB Hana Indonesia's lending to small and medium sized enterprises.</p> <p>March 2019: The IFC Board approved an additional equity investment of PT Bank KEB Hana Indonesia shares of up to \$15 million. The equity investment is currently pending singing.</p>	<p>December 2012: Samindo Resources obtains a long-term loan facility of \$23 million from PT Bank KEB Hana Indonesia. Samindo Resources and KEB Hana Indonesia have a longstanding banking relationship.</p>

<p>Indocement, a majority-owned subsidiary of the German multinational HeidelbergCement, is one of the leading cement producers in Indonesia. Producing cement, a binding agent used in concrete, is an extremely carbon-intensive process that is often fueled by cheap coal.</p>	<p>January 2014: IFC made a \$186 million “straight equity” investment in Raiffeisen Bank International.</p>	<p>January 2018: Raiffeisen Bank participated in a syndicated loan to HeidelbergCement worth \$3.6 billion that matures in 2023. The loan refinanced an existing deal.</p>
<p>PT Adaro Energy, Indonesia’s second-largest coal producer. The company holds tens of thousands of hectares of mining concessions throughout the archipelago. Adaro Energy’s MetCoal concessions, which it acquired from BHP Billiton in 2016, threatens to deprive the indigenous people of their land, pollute water sources used by millions of people, and destroy the 75,000 hectares of primary rainforest located within the mining concessions.</p> <p>Annual coal production: 51 million metric tons</p> <p>Installed coal power capacity: 60 megawatts.</p>	<p>December 2007: IFC invested \$25 million in Saratoga Asia II, a private equity fund. IFC is represented on the fund’s advisory board.</p>	<p>2007: Saratoga Asia II made an IDR978 billion equity investment in Adaro Energy. The fund divested from Adaro Energy in 2011, according to the IFC.</p>



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