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Indonesia: Mobilization of Coal Projects through World Bank Development Policy Loans

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The World Bank's Infrastructure Development Policy Loans (DPL) in Indonesia advance several specific policies and institutions that directly support coal power development. Despite the Bank's awareness that the targeted power sector plans involved "a large scale-up in the use of coal… a move that could lead to significant negative environmental impacts," the Bank failed to treat the operation as a "category A" and, thus, failed to adequately mitigate the potential negative impacts. The Indonesia DPL demonstrates the need for significant strengthening of the review mechanism for DPLs to ensure the Bank is truly pursuing sustainable development and advancing the commitments of the Energy Directions paper, in which the Bank pledged to limit coal lending to rare circumstances.

Indonesia's Coal Intensive Infrastructure Plan

Since 2006, the Government of Indonesia's (GOI) master plan for infrastructure included pursuing an accelerated power generation program, called Fast Track I & II, targeting more than 18 GW of coal-fired power generation or 71% of proposed power projects (see Table 1).

Table 1. Government of Indonesia's Priority Power Projects

Year adopted Power source	2006 Fast Track I (MW)	2010 Fast Track II (MW)	Total Projects	Total Generation	% of Generation
Coal	14,611	3,672	84	18,283	71%
Gas	560	1,300	4	1,860	7%
Geothermal	440	3,867	46	4,307	17%
Hydropower		1,174	3	1,174	5%
Total	**15,611[1]**	**10,013**	**137**	**25,624**	

Data Source: PricewaterhouseCoopers, 2011. Electricity in Indonesia: Investment and Taxation Guide 2011.

Infrastructure Development Policy Loans Are Not General Budget Support

According to the World Bank, its $850 million, four-year (2007-2010) Infrastructure-DPL series would "mobilize systems and improve incentives for infrastructure finance, based on five specific areas of engagement: (i) national infrastructure (electricity and roads); (ii) subnational infrastructure (water); (iii) public-private partnerships (PPP) institutional framework; (iv) land acquisition; and (v) cross-cutting governance issues."[2] World Bank I-DPL measures directly linked to supporting coal developments include:

Higher budget expenditure for national infrastructure. Higher budget allocation for national infrastructure, with a focus on electricity and roads, was a prior action for the first I-DPL and accounted for indicative triggers for I-DPL 2 and 3. Given that the GOI's priority power projects were predominantly coal plants, higher government expenditure on infrastructure – specifically enabled by the World Bank DPL funds – contributes to the development of coal projects. Many of the coal power plants are projects of the Indonesian state power company (PLN) and thus, are direct recipients of the higher infrastructure expenditures provided by the WB DPL.

Implementation of Public Private Partnership framework. A main thrust of the World Bank's I-DPL program is the "establishment and activation of the regulatory and institutional framework for Public Private Partnership (PPP) transactions." The PPP investment framework provides a number of government incentives (aka subsidies), including: VAT tax exemptions, import duty exemptions, income tax rate reductions, accelerated rates of depreciation, land tax exemptions, building tax exemptions, and guarantees (as explained below). These subsidies are provided to private

[1] The total capacity accounted for by Fast Track I is larger than the original plan due to subsequent project expansions. For example, the Central Java Power Project grew from 800 MW to 2,000 MW.

[2] World Bank, 2007. IBRD Program Document for a proposed first Infrastructure Development Policy Loan (IDPL 1) to the Republic of Indonesia. October 31, 2007.

investors and apply to most power projects whether coal-based or renewable. Further, these subsidies undermine Indonesia's G20 commitment to phase out fossil fuel subsidies.

Preparation and implementation of PPP demonstration projects. Indicative triggers for I-DPL 2 and 3 included the completion of feasibility studies, tendering, award and financial close of four PPP projects. In November 2006, ten PPP "Model Projects" were identified. In 2008, the IFC became the Transaction Advisor to the state power company, PLN, to prepare and promote to investors one of the model PPP projects – the Central Java Power Plant.[3] World Bank I-DPL documents identify IFC advisory services as additional activities in support of the I-DPL series.

As of the end of January 2013, only three power sector PPP projects were being tendered and they were all coal power projects: **Central Java Ultra Supercritical Coal Fired Power Plant** (2 X 1,000 MW), **South Sumatera 9 – Mine Mouth Coal Fired Power Plant** (2 X 600 MW), and **South Sumatera 10 – Mine Mouth Coal Fired Power Plant** (1 X 600 MW).[4]

Establishment and funding of Infrastructure Guarantee Fund. The I-DPL series included prior actions and indicative triggers related to the establishment and funding of the Indonesia Infrastructure Guarantee Fund (IIGF) and the Indonesia Infrastructure Investment Fund (IIF). Both institutions are aimed at "mobilizing long-term financing for infrastructure PPP projects. The first project to receive an IIGF guarantee of $30 million in October 2011 was the **Central Java Coal Power Plant**. Three additional coal power plants are currently under consideration for IIGF guarantees, including **two South Sumatera mine mouth power plants** (see above) and the **Jambi mine mouth coal plant** (2 x 400 MW). Further to the I-DPL support, the Bank provided a $30 million loan to the IIGF.[5]

OP 8.60 Review of Potential Impacts: Not Treated as a "Category A" DPL

The World Bank's program document for the first I-DPL stated "national energy policies propose to increase reliance on renewable energy sources, but at the same time the Government plans a large scale-up in the use of coal …– a move that could lead to significant negative environmental impacts."[6] Even though the Bank seemed to recognize that the energy infrastructure plan supported by the I-DPL posed potential significant negative environmental impacts, the environmental review conducted as part of OP8.60 did not treat the I-DPL as a "Category A" program. A category A-type classification would likely have triggered an analysis of how Indonesia would reduce the potential substantial increase in greenhouse gas (GHG) emissions, in line with the country's international commitments to reduce emissions growth.

The Bank's environmental review focused mainly on electricity tariff reform – not on increased expenditures, guarantees or tax incentives supporting coal projects – and thus concluded the operation overall would have positive environmental outcomes. The review did note the potential for "increased emissions of GHG and other pollutants due to increased fossil fuel based electricity generation" but stated that the DPL would address this by strengthening the government's capacity to conduct environmental impact assessments (EIAs). Increased EIA capacity does not adequately address the potential for a significant increase in GHG emissions associated with supporting a coal intensive infrastructure plan.

The Indonesia DPL clearly represented a potential for significant negative environmental impacts, however, given the decision making regarding this loan, it is difficult to understand when a DPL would be considered by the Bank to represent such risk. Moreover, the risks associated with the Indonesian I-DPL were missed by the **2012 Development Policy Lending Retrospective** and, thus, there were no specific recommendations to improve the assessment and management of DPL environmental risks, which brings into question the review process for DPLs.

Full briefing available at: http://priceofoil.org/2013/09/25/world-bank-accelerating-coal-development-indonesia/
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[3] The IFC's services were funded by a grant from Devco (Infrastructure Development Collaboration Partnership Fund), a multi-donor program affiliated with the Private Infrastructure Development Group.
[4] BAPPENAS, 2013. PPP Project Achievements and Future Pipeline. Dr. Ir. Bastary Pandji Indra, Director for PPP Development, National Development Planning Agency (BAPPENAS) Republic of Indonesia. PPP Infrastructure Investment Forum, Tokyo, January 22, 2013.
[5] Indonesia Infrastructure Guarantee Fund, Project ID# P118916, approved: September 2012. Qualifying projects will be those that are apprised by the World Bank and meet World Bank policies.
[6] World Bank, 2007. IBRD Program Document for a proposed first Infrastructure Development Policy Loan (IDPL 1) to the Republic of Indonesia. Annex 14 Environment, page 169. October 31, 2007.