

# World Bank's plans for Indonesia: Delayed action on climate and continued coal and gas support

At issue



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September 2021

Indonesian civil society organisations (CSOs) have raised concerns that the World Bank is promoting gas as a transition fuel in its new Country Partnership Framework (CPF) for Indonesia for 2021-2024. Analysis of the CPF presented in this briefing further shows that the Bank is due to provide significant support for Indonesia's state electricity company, despite its planned coal expansion. The Bank's intended support for decarbonisation risks coming after long-term commitments to new fossil fuel infrastructure have already been locked in.

The Indonesia World Bank Country Partnership Framework ([CPF](#)) which sets the parameters of the Bank's engagement in the country between 2021 and 2024, was published in May. Twelve organisations in Indonesia, including Trend Asia, WALHI, Greenpeace and Pena Masyarakat, reviewed the CPF to identify its exposure to fossil fuels. In a [statement](#) sent to the World Bank in Indonesia, they noted that the Bank is incentivising the use of gas and biogas as transition fuels in Indonesia and that technical assistance and Development Policy Loans are scheduled to support the Indonesian State Electricity Company, PT Perusahaan Listrik Negara (PLN), which still intends to construct 33,000 MW of coal-fired and gas-fired power stations.

The CPF is therefore at odds with the World Bank's new [Climate Change Action Plan](#), which aims to align with the Paris Agreement through the "provision of support to clients in a way that is consistent with low-carbon and climate-resilient development Pathways" (see [Observer Autumn 2021](#)). The CPF also proposes a phased response, with Covid-19 recovery in the first half of the 2021-2024 period, and decarbonisation efforts coming in the second period, thereby delaying urgent action on

## Delayed action on climate change

The Indonesia CPF appears to put tackling climate change on the back-burner, a fire to be put out once the Covid-19 crisis has been brought under control. This is a high-risk strategy, given the urgency of keeping global warming below 1.5°C and the intensity of climate impacts and global heating already underway.

The CPF states that "in the first half of the CPF period, the accent will be on supporting inclusive and sustainable economic recovery, in ensuring effective implementation of government's emergency assistance to mitigate the impacts of the pandemic as well as an orderly exit from exceptional support measures." This suggests that low-carbon development will be a lower priority in this first half of the CPF, leaving a period of 'open season' for investors and regulators to drive for growth at any cost, instead of seizing the opportunity created by the dual crisis of climate change and the Covid-19 pandemic to transition rapidly to a low-carbon economy.

The framework further states that if engagement with the government on issues such as the transition to a low carbon energy and climate change shows results, the Performance and



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Learning Review (PLR) would provide an opportunity for assistance to be rebalanced in the *second half* of the CPF. This mid-term review will be an important, if belated, opportunity for CSOs to push for the urgent prioritisation of decarbonisation. The review process must be open and inclusive of a broad range of Indonesian civil society actors.

The latter phase of the CPF is identified as including “climate-informed DPFs (Development Policy Finance) [that] will support sustainable and resilient recovery through climate actions, for example, shifting to cleaner transport and low-carbon energy.” If the DPFs are targeted at supporting the PLN’s financial sustainability, then the Bank must be aware that its financing will also incentivise coal and gas development.

## Coal

In the July 2013 World Bank Energy Directions [Paper](#), the Bank stated it would fund coal power generation “only in rare circumstances”. However, in Indonesia, the World Bank’s Development Policy Finance (DPF) – non-earmarked budget support which provides finance directly to a country’s general budget as opposed to project finance for a specific project – has since offered many incentives for fossil fuel development, including subsidies given to [Public Private Partnership \(PPP\) projects](#) – which in Indonesia’s energy sector predominantly comprise coal power plants – and government contract incentives for natural gas exploration. All of these DPF-supported investment incentives contradict Indonesia’s [G20 commitment](#) and the [Bank’s pledge](#) to phase out fossil fuel subsidies.

The [CPF for Indonesia](#) is built around four engagement areas: “to strengthen economic competitiveness and resilience; improve infrastructure; nurture human capital; strengthen management of natural assets, natural resources-based livelihoods and disaster resilience.” But there is an emphasis in the CPF on enabling foreign direct investment, which is of significant concern, because the World Bank’s 2018 pledge to end financing for upstream oil and gas does not include indirect financing through financial intermediaries (FIs). This keeps the door open to Bank support for private financing of fossil fuels, including coal and upstream oil and gas, as a result of the World Bank’s substantial equity guarantees and lending.

Just before the publication of Indonesia’s new CPF in May, the CEO of the PLN announced a [moratorium on new coal plants from 2023](#), stating that 1,500 TWh of new electricity required between now and 2060 (five times the current electricity demand in the country) must come from renewables.

However, the PLN also announced that coal-fired power stations that were already financed and under construction would be built until 2025. In total 20 GW of additional power generating capacity will come from coal-fired power stations, plus an additional 13 GW from gas-fired power stations. The energy ministry’s new plan extends the life of PLN’s coal-fired power fleet by [switching to](#) biomass co-firing. However, a complete phase out of coal-fired power plants is essential to align with the Paris Agreement goals, and whilst biomass co-firing can reduce greenhouse gas emissions of existing power plants, this also

supports the continued use of coal (as co-firing is a combination of coal and biomass).

A [November 2020](#) presidential regulation features coal gasification on a “priority” investment list, which includes incentives such as tax allowances or tax breaks. A \$2 billion project in Sumatra for the construction of a coal gasification plant to produce methanol and subsequently dimethyl ether (DME), is considered a nationally strategic project. Downstream coal processing includes methods of transforming coal into different products, in this case into DME as an alternative to LPG, commonly used for cooking.

In the implementation of the latest mineral and coal mining law (UU No 3 2020), Indonesia’s coal production is increasing. In 2021, Indonesia is setting the target at [625 million tonnes](#) of coal production, which is the biggest national target in history. Indonesia’s coal is mostly exported to India and China with exports reaching over [160 million tons](#) in 2020.

In this context the position of the Multilateral Investment Guarantee Agency (MIGA), the World Bank’s private risk insurance arm, as a [debt guarantor](#) for the PLN is inconsistent with the WBG’s commitment to exit coal. Indonesian civil society groups fear that MIGA’s guarantee for PLN’s debt of Rp 500 trillion/\$35 billion will contribute to PLN’s capacity to build more coal-fired power plants. These plants are unnecessary, given that Indonesia is already experiencing electricity oversupply of almost [50 per cent](#).

Also, as planned in the CPF, the World Bank has committed \$200 million to a policy-based guarantee

to ensure continuity of electricity supply by addressing the projected impact of the Covid-19 crisis on PLN's cash flow and by improving the company's medium- to long-term financial viability. Given the PLN's heavy debt [attributed](#) to coal-fired power plants, and the promotion of new coal-fired power plants and downstream coal projects, it is unlikely that this CPF-envisaged major [Policy Based Guarantee](#) to support PLN Financial Stabilisation and Reform Project is consistent with the World Bank's commitment to get out of coal.

The International Finance Corporation (IFC), the Bank's private investment arm, is also implicated in supporting [Java 9 and 10](#), the 2000 MW Java coal power station in Banten, Indonesia. This is one of the world's biggest new coal complexes,

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backed by the IFC through its financial intermediary, Hana Bank Indonesia, which provided project loans in July 2020. This is despite Hana Bank endorsing IFC's new Green Equity Approach, which was developed precisely to encourage equity clients in such countries to shift away from coal, with a goal to reduce their coal exposure by 50 percent by 2025 and to zero by 2030 (see [Observer Winter 2020](#)).

Given that the life cycle of a coal-fired power station is around 40 years, ongoing construction of coal plants supported through MIGA, the IFC and policy-based guarantees risks leaving Indonesia paying for coal infrastructure until the late 2060s, locking the country into coal well beyond its deadline to become carbon neutral. This approach jars with the findings of the August 2021 IPCC report, which UN Secretary General Antonio Guterres [said](#)

should "sound a death knell for coal and fossil fuels, before they destroy our planet."

The CPF's reform agenda will be supported by "an ambitious ASA with decarbonization considerations at its core" – an Advisory Services and Analytics (ASA) report being a policy-based non-lending service produced by the Bank that is influential in shaping national policy. If the ASA is to deliver on the decarbonisation agenda, it must address the World Bank's existing commitments to coal and other fossil fuels, and ensure it supports policy and regulatory reforms on a pathway towards carbon neutrality in line with Indonesia's international commitments.

## Gas

The International Energy Agency's [Net-Zero by 2050 report](#) notes there is no need for investment in new fossil fuel supply. More questionable still in the case of Indonesia are new gas power plants, which – often built with a 30-year lifespan – would take the world past the 2050 target for achieving net zero.

The petrochemical industry has long claimed gas is a "bridge fuel" that is less damaging to the climate than oil or coal. But recent [research](#) by the International Institute for Sustainable Development (IISD) presents growing evidence of the damage caused by methane leaks, the urgency of curbing emissions and the falling price of renewables that will squeeze the whole gas supply chain, creating financial risks. Furthermore, now that renewables are competitive economically, additional gas tends to displace investment in renewable energy as well as coal. Gas is starting to



Photo: Coal Power Plant PT. Indonesia.  
Credit: Ares Jonekson/Shutterstock

impede rather than to enable the energy transition.

Nevertheless, the Indonesia CPF has a specific emphasis on natural gas. In a number of places, the CPF refers to the acceleration of the deployment of natural gas and biogas. The CPF Results Framework also outlines plans to conduct an ASA to support gas and alternative energy sources and has a stated aim of “improving the investment climate for private investors by strengthening natural resource governance, gas infrastructure planning, and regulatory reform.”

The WBG has made a regressive U-turn on gas in the CPF since the publication of the [Indonesia Systemic Country Diagnostic \(SCD\) 2020](#). Civil society groups question how and why the WBG advocates for gas in the CPF, when the opportunity is ripe to finance and support the rapid uptake of sustainable renewable energy, in line with Indonesia’s decarbonisation goals.

The CPF states that provided the government proceeds with energy sector reforms, WBG support will also be extended through a policy-oriented Program-for-Results (P4R) and lending operations directed at “energy sources alternative to coal”, aimed at improving sector financial sustainability while reducing the fiscal burden of the energy sector and improving access to energy. It seems clear now that energy sources considered “alternative to coal” include gas, as well as the downstream use of coal (including coal liquefaction and gasification) which serve as a means to continue exploiting Indonesia’s massive coal reserves.

#### Recommendations:

- The WBG should work to support Indonesia’s rapid phase out of all fossil fuels, including gas.
- The WBG should support Indonesia to seize the opportunity to lock in deep emissions reductions as it recovers from the pandemic, rather than put decarbonisation on the back-burner.
- The WBG in Indonesia should immediately review its continued exposure to coal within the CPF, that is evidenced through its financial intermediaries and private sector loans and guarantees, as well as through support to PLN, which has continued plans to expand coal, through coal plants already in its pipeline.
- The WBG should recognise that gas infrastructure planning is impeding the renewable energy transition and in contradiction to its own decarbonisation goals.

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September 2021



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The Bretton Woods Project is an ActionAid-hosted project, UK registered charity no. 274467, England and Wales charity no. 274467, Scottish charity no. SC045476. This publication is supported by a network of UK NGOs, the C.S. Mott Foundation, the William and Flora Hewlett Foundation and the Rockefeller Brothers Fund.

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