Case study

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Insuring catastrophe: The IFC's role in supporting coal insurance in Vietnam

PVI Holdings, a financial intermediary client of the International Finance Corporation (IFC), has insured new coal power plants since the IFC's investment.

This is contributing to environmental and social harms across Vietnam, including air and water pollution, health impacts, displacement, and increased greenhouse gas emissions.

Location: Ky Loi, Ky Anh, Ha Tinh, Vietnam

Projects: Vung Ang Power Station

Project owners: PetroVietnam Power Corporation JSC (Phase 1), Vung Ang 2 Thermal Power JSC (Phase 2)

Insured by: PetroVietnam Holdings

Indirectly supported by: International Finance Corporation, HDI Global SE (part of the Talanx group)

What should the IFC do in this case?

- Ensure that PVI does not insure any further coal projects and reduces coal exposure
- Ensure that PVI discloses its annual coal exposure and any coal subprojects it has insured
- Amend its Green Equity Approach to apply to all forms of financing for coal projects
- Contribute to the remediation of harms

Introduction

Despite agreeing, in 2023, a Just Energy Transition Partnership (JETP) deal to reach net zero by 2050, Vietnam still has one of the largest operating coal fleets in Asia, and has plans to bring 6.7 gigawatts (GW) of new coal capacity online in the coming years [1].

Multilateral development banks (MDBs), such as the World Bank and International Finance Corporation (IFC) can play an important role in helping to shift finance away from coal, supporting Vietnam to reduce its reliance on coal and instead developing clean, green energy projects that do no harm to people and planet.

However, one IFC investment appears to be doing the opposite by facilitating the development of new coal projects. PVI Holdings, formerly PetroVietnam Insurance, is an insurance company partly owned by the state energy company PetroVietnam. Our research shows that, since IFC's investment in 2021, PVI Holdings appears to be not only failing to reduce its coal exposure but is actually insuring (and therefore facilitating the construction of) numerous new coal power projects, with serious social and environmental impacts, across Vietnam. This includes the expansion of the Vung Ang power station, known as Vung Ang 2.

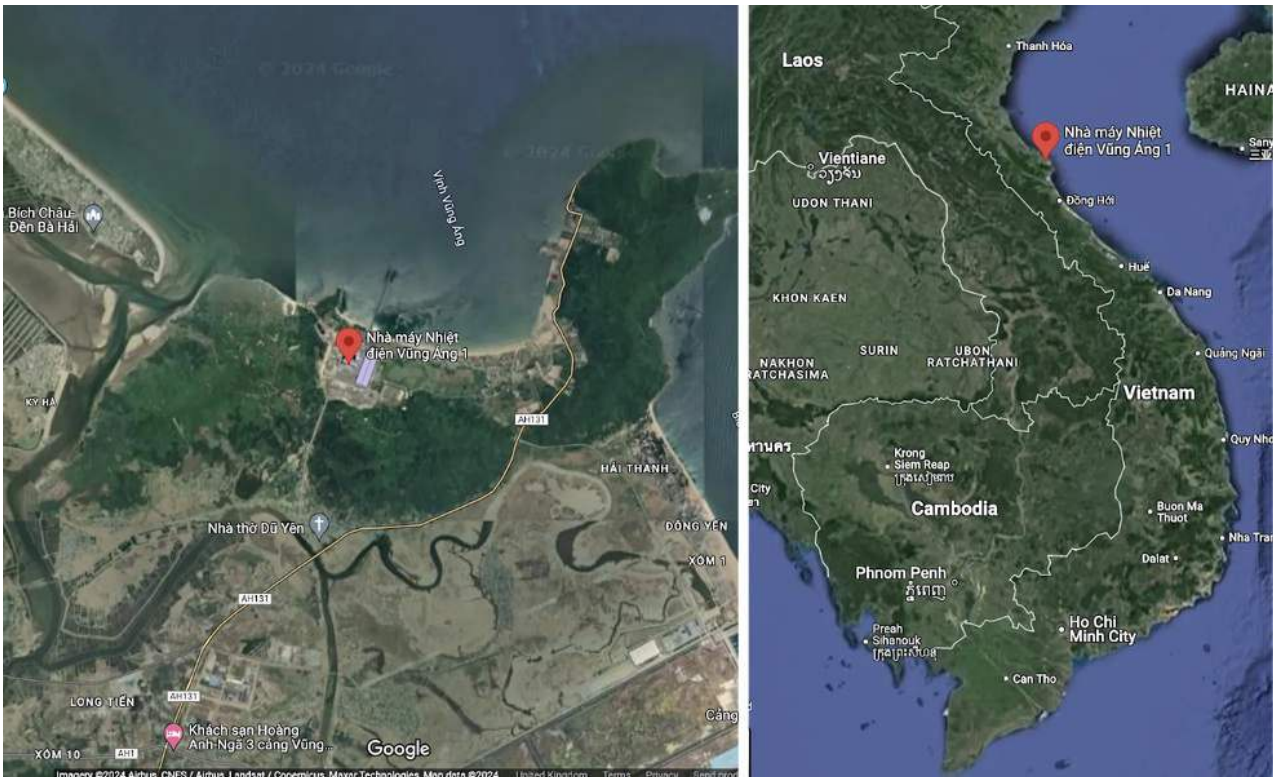

Figure 1: An aerial view of the Vung Ang Power Station. Source: Imagery © 2024 Airbus, CNES / Airbus, Landsat / Copernicus, Maxar Technologies, Map data © 2024 Google.

The IFC's Green Equity Approach

Introduced in 2020, the IFC's Green Equity Approach (GEA) was designed to encourage some of the IFC's financial intermediary clients, those in which IFC has an equity stake, to transition their portfolios away from coal and increase climate lending. This includes mainly commercial bank clients but also some insurance companies, such as PVI.

The diagram below demonstrates that financial intermediaries that are subject to the GEA will be required to reduce their coal exposure by half between the time of IFC investment and 2025, and to "zero or near zero" by 2030. The IFC states that it will "continue working with equity investees that may have portfolio exposure to coal activities until 2030 as long as that exposure is on the reduction trajectory", and that clients are "required to publicly disclose, on an annual basis, their aggregated exposures to coal-related projects" [2].

Initially, the GEA did not require clients to stop investing in new coal projects, as long as the overall trajectory of their coal exposure was downwards. A 2023 update to the GEA then required clients to stop financing new coal projects. Although this applies to some existing clients (see Figure 2 below), the IFC has told Recourse, in response to this research, that PVI is only subject to the initial 2020 requirements of the GEA (reducing coal exposure over time).

Figure 2: The conditions of IFC's Green Equity Approach as of January 2023. Source: IFC. [3]

IFC's coal and climate criteria for existing and new equity investments			
Criteria	**Existing equity clients (no new business)***	**Exiting 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 our kept 5% of total loan portfolio	Reduced by 50% on no more than 5% of total loan portfolio (whatever is stricter)	Reduced by 50% or no more than 5% of total loan portfolio (whatever is stricter)
Coal exposure by 2030	Zero or near zero	Zero or near zero	Zero or near zero
New coal projects financing	No new coal	No new coal	No new coal
Climate target by 2023	30% or country-specific target	30% or country-specific target	30% or country-specific target

The IFC's connections to Vietnam's coal projects

In August 2021, the IFC invested $7.48m in PVI Holdings (PVI), an insurance company established by the state-owned energy firm PetroVietnam (and in which PetroVietnam still holds a 35% stake). [4] The investment is subject to the GEA.

As of March 2021, PVI was the "the largest non-life insurance company in Vietnam in terms of gross written premium". According to the IFC, the intended development impact of the project was to increase access to non-life insurance in Vietnam, particularly in health and engineering. However, the IFC categorised the investment as FI-1, high risk, owing to PVI's "sizeable exposure to large corporate clients operating in high-risk sectors", including coal, gas and oil.

PVI's coal exposure before IFC investment

The IFC states that, at the time of investment, PVI was exposed to several coal-fired power plants, representing "3.7 percent of its total Gross Written Premium as of December 31, 2020". Financial analysis by Inclusive Development International shows that this includes insurance for the Nghi Son 2, Duyen Hai 2, Hai Duong, Vinh Tan 4, Thai Binh 1 and Thang Long coal-fired power plants. [5] This research required forensic analysis of financial databases, as the IFC does not currently disclose the subprojects financed via commercial banks or insurers (in the case of GEA clients, only an aggregate percentage of coal exposure as a proportion of the total portfolio is disclosed).

Because it is subject to the GEA, PVI is required to disclose aggregate coal exposure annually to the IFC and to decrease its coal exposure by 50% (to 1.85% of Gross Written Premium or lower) by 2025. However, as of yet, no further disclosures have been made on the IFC website with regards to PVI's current coal exposure. Nor has there been any disclosure of the coal power plants, or any other high or medium subprojects, insured by PVI since IFC's investment. Furthermore, a 2023 update to the GEA requires existing clients to stop providing project financing to new coal power plants. As we will see below, there are numerous examples of coal-fired power plants that have been insured by PVI after the time of IFC's investment, with many of these examples occurring after January 2023.

In response, the IFC told Recourse that, as an insurance company, PVI is subject neither to the subproject disclosure requirements of the IFC's Access to Information Policy nor to the updated 2023 requirements of the GEA (as it does not provide project financing). This points to a huge flaw in the GEA. By providing insurance to new coal projects, PVI is clearly breaching the spirit and intention of the GEA, if not its technical requirements (which are therefore clearly insufficient). If the IFC is truly committed to ending all coal finance, it must ensure that the GEA applies to all financing, including insurance, general purpose financing for coal developers and underwriting, that make new coal projects possible.

Figure 3: Coal projects insure by PVI prior to IFC investment. Data from Global Energy Monitor.

Project	Owner	Units	Total capacity	Started operating in
Duyen Hai 2	Malakoff Technical Solutions Sdn Bhd	2	1200 MW	2021
Hai Duong	China Power Engineering Consulting Group Co Ltd, JAKS Resources Bhd (Unit 1)JAKS Resources Bhd, China Power Engineering Consulting Group Co Ltd (Unit 2)	2	1200 MW	2020
Nghi Son 2	Nghi Son 2 Power LLC	2	1320 MW	2022
Thai Binh 1	Vietnam Electricity LLC	2	600 MW	2017
Thang Long	Hanoi Export Import Co	2	600 MW	2018
Vinh Tan 4 extension	Vietnam Electricity LLC	1	600 MW	2019

Vung Ang 2 and Quang Trach

In October 2021 (only two months after IFC's investment), PVI provided $203m in insurance to the Vung Ang 2 coal power plant in Ha Tinh province.[6] Documents published by the project developers KEPCO confirm this, showing that the insurance contracts (for cargo insurance, third party liability insurance, terrorism insurance and marine insurance) run from October 2021 to October 2025. These documents also show that PVI Holdings acted as syndicate leaders on these contracts, effectively facilitating the provision of a further $3bn of insurance for the Vung Ang 2 project.[7] According to Global Energy Monitor, construction of Vung Ang 2 was approximately 83% complete as of April 2024, and the plant is expected to become fully operational in 2025. [8]

Furthermore, in August 2023 it was reported on PVI's website that the company had "recently . . . won the bid to provide insurance for the Quang Trach 1 Coal-fired Power Plant Project". Quang Trach is a power project being developed by the state power company Vietnam Electricity in Quang Binh province, only 20km from Vung Ang 2. [9] The power plant comprises two 700MW coal power units and a planned 1,500MW gas power plant. There has been opposition to the development of Quang Trach 2 from civil society organisations, including Friends of the Earth Japan, Market Forces and Beyond Coal, who have campaigned for Mitsubishi and Hyundai to pull out of their construction contracts for the power plant.[10] As of April 2024, construction of the coal units was reportedly 12% complete and both were expected to be operational by late 2026.[11]

PVI's insurance for other PetroVietnam coal projects

In August 2023, it was also reported that PVI had signed an agreement with PetroVietnam Power Generation Branch (PVPGB) to provide insurance for other coal-fired power plants owned by PVPGB. [12]

Although further details of this agreement, or any subsequent insurance contracts that might result from it, have not yet emerged, data from Global Energy Monitor suggests that this means PVI could provide insurance for at least a further four coal-fired power plants.

Of these projects, Vung Ang 1 started operating before IFC's investment, Song Hau 1 and Thai Binh 2 started operating after IFC investment, and Long Phu 1 is still in development.

This agreement between PVI and PVPGB raises further questions about the likelihood of PVI reducing its coal exposure to 1.85% of its total Gross Written Premium by the end of 2025, or to near zero by 2030, as it is required to do under the terms of the GEA.

If PVI has indeed insured all of these coal projects, as well as those above, that would take its (and therefore IFC's) coal exposure to just over 13GW, roughly equivalent to the coal capacity of the whole of Kazakhstan (which has the 16th largest coal capacity in the world).

Figure 4: PVPGB-owned coal-fired power plants that could be insured by PVI. Source: Global Energy Monitor.

Project	Owner	Status	Total capacity	Started operating in
Vung Ang 1	PetroVietnam Power Corporation	Operating	1200 MW	2014
Song Hau 1	PetroVietnam Power Corporation	Operating	1200 MW	2021
Thai Binh 2	PetroVietnam Power Corporation	Operating	1200 MW	2023
Long Phu 1	PetroVietnam Power Corporation	Construction	1200 MW	2026 (planned)

The impacts of Vietnam's coal expansion

Across Vietnam, coal development has contributed to increased pollution, health problems, impacts on livelihoods, damage to biodiversity, and increased greenhouse gas emissions.

These problems and more have been noted in relation to the Vung Ang power station. Local residents have complained that the Vung Ang 1 project has already contributed to toxic air and water quality, dried out paddy fields, dying fish and banana trees failing to produce fruit.[13] The *LA Times* reported that proper relocation and compensation processes have not been followed for the construction of Vung Ang 1 and 2, with residents asked to sign papers without compensation amounts being agreed.[14] According to BankTrack, Vung Ang 2 is highly likely to "exacerbate environmental pollution and health hazards", with negative impacts expected to local farmland, fishing, public health, and aquatic ecosystems.[15]

The carbon emissions of Vietnam's expanding coal fleet are also significant and perilous for the global climate. A 2019 briefing published by Urgewald, Change Vietnam, Market Forces, and Unfriend Coal highlighted that total lifetime carbon emissions of the six coal-fired power plants that PVI has insured up to that point would contribute close to one billion tonnes of CO_2 emissions over their combined lifetimes.[16] In 2022, this was roughly equivalent to one year of emissions from Japan, the world's fifth largest CO_2 emitting country.[17]

Fortunately, some planned coal projects in Vietnam, such as Song Hau 2 and Quang Trach 2 (expansions of the power plants of the same names mentioned above), have struggled to find financing and have since been cancelled. But with more coal capacity currently being developed, both for power generation and for industrial uses such as steel production, it is imperative that the MDBs are not helping to finance more coal projects, but are instead supporting a genuinely just and sustainable energy transition in Vietnam.

Disproportionate impacts of coal development on women

The social, economic, environmental and health-related impacts of coal development disproportionately harm women. This has been acknowledged in World Bank reports, which highlight that women are often excluded from job opportunities and development programmes that come with coal development, and may face increased poverty, food insecurity and gender-based violence. Furthermore, the IFC's own website recognises that "women and other disadvantaged groups are likely to be more negatively impacted by the effects of climate change".[19]

The World Bank Group (WBG) is committed, under its Gender Strategy, to support gender equality, inclusive growth and the empowerment of all women and girls.[20] It is therefore completely contradictory for the IFC to continue to support coal, or any fossil fuel development, as these impacts will undermine WBG commitments to foster inclusive growth and gender equality.

Recommendations

To comply with its own climate commitments, align with the Paris Agreement, and reduce social and environmental harms, the IFC should:

- use its leverage with PVI Holdings to ensure it does not fund new coal projects, withdraws from insuring any further projects and reduces its coal exposure to 1.85% or less by 2025 (and to zero by 2030). If IFC's leverage is ineffective, then ultimately it must divest from PVI, stating its reasons publicly.
- amend the GEA to ensure it applies to all forms of coal financing.
- ensure that PVI Holdings, and all clients subject to the GEA, annually disclose their aggregate coal exposure and that this is also disclosed on the IFC website.
- ensure it discloses, on its own website, the name, location and sector for all Category A sub-projects supported by financial intermediaries after IFC's investment, as it commits to in the Guidance Note on Financial Intermediaries.[21]
- contribute to the remediation of social and environmental harms caused by its investment in PVI Holdings.

A protest against the Vung Ang 2 coal plant, targeting KEPCO in South Korea. Photo by Yonhap.

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