

“DISASTER FOR US AND THE PLANET”: HOW THE IFC IS QUIETLY FUNDING A COAL BOOM



Photo © Joe Athialy

Outsourcing Development: Lifting the Veil on the World Bank Group’s Lending Through Financial Intermediaries

Part 1
October 2016



In collaboration with



Published by Inclusive Development International, Bank Information Center, 11.11.11, Urgewald and Accountability Counsel in October 2016.

Copyright © Inclusive Development International 2016

All rights reserved.

This publication was authored by Dustin Roasa. Research assistance for the Outsourcing Development series was provided by Emily Claire Goldman, Harry Thomas Kibby, Ishita Rahul Petkar, Mariko Meyer, and Satbir Singh.

The publishers also wish to thank Akshay Gupta, Anirudha Nagar, David Pred, Gerry Arances, Joe Athialy, Kate Geary, Kindra Mohr, Knud Vöcking, Natalie Bugalski, Nadia Daar, Nezir Sinani, Nicole Ghio, Pol Vandevoort, Priya Pillai, Rob Lake, Siddharth Akali, and Valentino de Guzman, for their valuable contributions.

This publication and the underlying research was funded by KR Foundation, Climate and Land Use Alliance, Grassroots Foundation, 11.11.11, Planet Wheeler Foundation and the SAGE Fund, though the views expressed do not necessarily represent those of the funders.

The Outsourcing Development series and a related database of harmful financial intermediary sub-projects is available for download at www.inclusivedevelopment.net/publications.

For further information on the issues raised in the Outsourcing Development series, please contact Inclusive Development International:

50 S French Broad Avenue, Suite 257
Asheville, NC 28801
USA
Email: info@inclusivedevelopment.net.

This publication is copyrighted but the text may be used free of charge for the purposes of advocacy, campaigning, education, and research, provided that the source is acknowledged in full. The copyright holder requests that all such use be registered with them for impact assessment purposes. For copying in any other circumstances, or for re-use in other publications, or for translation or adaptation, permission must be secured and a fee may be charged. Email info@inclusivedevelopment.net.

The information in this publication is correct at the time of going to press.

Inclusive Development International

Inclusive Development International is a human rights organization working to make the international economic system more just and inclusive. IDI supports grassroots organizations and communities to defend their land, natural resources and human rights against threats from harmful investment, trade and development practices. Through research, casework and policy advocacy, IDI works to strengthen the human rights regulation and accountability of corporations, financial institutions and development agencies. For more information, please visit www.inclusivedevelopment.net.

“DISASTER FOR US AND THE PLANET”: HOW THE IFC IS QUIETLY FUNDING A COAL BOOM

Outsourcing Development: Lifting the Veil on the World Bank Group’s Lending Through Financial Intermediaries

Part 1
October 2016

This report is dedicated to the memory of Gloria Capitan, whose struggle for climate justice continues.

By Inclusive Development International

In collaboration with:

Bank Information Center
Accountability Counsel
Urgewald
11.11.11

“DISASTER FOR US AND THE PLANET”: HOW THE IFC IS QUIETLY FUNDING A COAL BOOM

Bechan Lalshah is a farmer and small-time trader in central India. He lives in Singrauli, an impoverished rural district in Madhya Pradesh state. Every morning, Lalshah wakes up sneezing and coughing ash from a nearby coal plant. Waste from the plant covers his crops in a dusty film, driving down yields, and seeps into water sources.

Singrauli is the heartland of India’s coal industry. The district produces 10% of the country’s thermal power. The coal plants and mines that blot the landscape are the singular feature of life there.



Beckon Lalshah, a farmer in India's Singrauli district who lives near the Mahan coal plant

“I can see one of the power plants from my house. The pollution contaminates everything,” Lalshah said. Just days earlier, a coal ash deposit burst, unleashing a river of sludge on a neighboring village.

The plant near Lalshah’s house is the 1,200-megawatt Mahan facility. Built by the Indian company Essar Power, it began generating power in May of this year. Essar received substantial financing from two Indian financial institutions, ICICI and IDFC, to build the plant.

Prior to loaning out this money, the Indian banks had received hundreds of millions of dollars in funding from the International Finance Corporation, a World Bank Group member committed to fighting poverty through sustainable development.

The IFC funneled money into the Mahan plant despite claims from the World Bank that it is no longer funding such projects. In 2013, the bank made history when it pledged to get out of the coal industry for good, except “in rare circumstances.” After decades of funding coal, the environmental consequences of continuing to do so – calamitous global climate change, rapid deforestation, air and water pollution – were just too severe.

World Bank President Jim Kim articulated the bank’s concerns at an event in May of this year. Building more coal plants, in particular in Asia, where there has been a boom, would lead to catastrophe. “That would spell disaster for us and the planet,” he said.

Despite President Kim’s strong words, the reality on the ground has been far different. In fact, the World Bank continues to be a major funder of the coal industry, and the ramifications extend far beyond India’s Singrauli district. Billions of dollars in IFC funds have quietly flowed into new coal projects around the world through multilayered financial transactions that exist beyond the scrutiny of the public.

The IFC is funding coal through its highly opaque support for commercial banks and private equity funds. These financial intermediaries received \$40 billion in IFC funding between 2011 and 2015. They now represent over half of the IFC’s lending portfolio, a proportion that has steadily increased over the past decade.

After receiving capital from the IFC, these financial institutions have gone on to fund dozens of the largest and dirtiest coal projects and companies in the world. The IFC does not publicly disclose the details of most of these transactions, but Inclusive Development International was able to follow the trail of money during a months-long forensic investigation.

According to this research, IFC-supported financial institutions have funded at least 41 new coal projects – either the facilities directly or the companies that own them – since the World Bank announced its coal ban in 2013. The investigation tackled only a small portion of the IFC’s sprawling financial-sector portfolio. As such, there are doubtless many more projects yet to be uncovered.

In total, these projects account for 56,137 megawatts of new coal capacity. Adding fuel to the fire, these projects have also decimated the world’s forests. Coal plants, and the mines that feed them, are a leading cause of deforestation globally, further contributing to climate change.

In Singrauli district, the IFC’s support for the Mahan power plant is a microcosm for how it funds coal around the world.

In 2005, the IFC loaned \$50 million to the infrastructure financier IDFC in order to help meet its “growing needs for disbursements in infrastructure projects as well as to diversify its borrowing sources,” according to publicly disclosed project documents. The following year, the IFC loaned ICICI, a large commercial bank, \$150 million to support its “capital requirements to finance growth.”

At the time, IDFC and ICICI were major players in India’s infrastructure and industrial sectors. The IFC loans, and the resulting prestige conveyed by a World Bank Group investment, put them in an even better position to fund the kinds of mega-projects they had been financing for years.

That’s exactly what they did. In 2011, ICICI was one of four banks to provide an \$888 million syndicated loan to Essar Power to build the Mahan coal plant. In 2014, ICICI Bank was one of six banks to provide a \$163 million syndicated loan to Essar Power MP, a special vehicle created by Essar Power to develop the Mahan coal plant. Also in 2014, when Essar faced cost overruns on the project, it secured another massive loan from five banks, including ICICI and IDFC, for the plant. In total, these two IFC-supported banks helped provide approximately \$1.9 billion in financing to build the Mahan coal plant.

The IFC’s support for the Mahan power plant is a microcosm for how it funds coal around the world.

The IFC’s support for the project did not end there. Essar, in need of a source of coal to fuel the plant, entered into a joint venture with the Indian company Hindalco to establish a mine nearby. The companies received approval from the government to establish the project, even though environmental groups warned that the mine would destroy one of the largest and oldest indigenous forests of *sal* trees, an indigenous species.

In addition, Greenpeace found that the mine would displace or otherwise harm 50,000 people who lived in the forest or depended on it for their livelihoods, including people like Lalshah. “Without the forest, we would lose our major income source. It would be like living as a dead person,” he said.

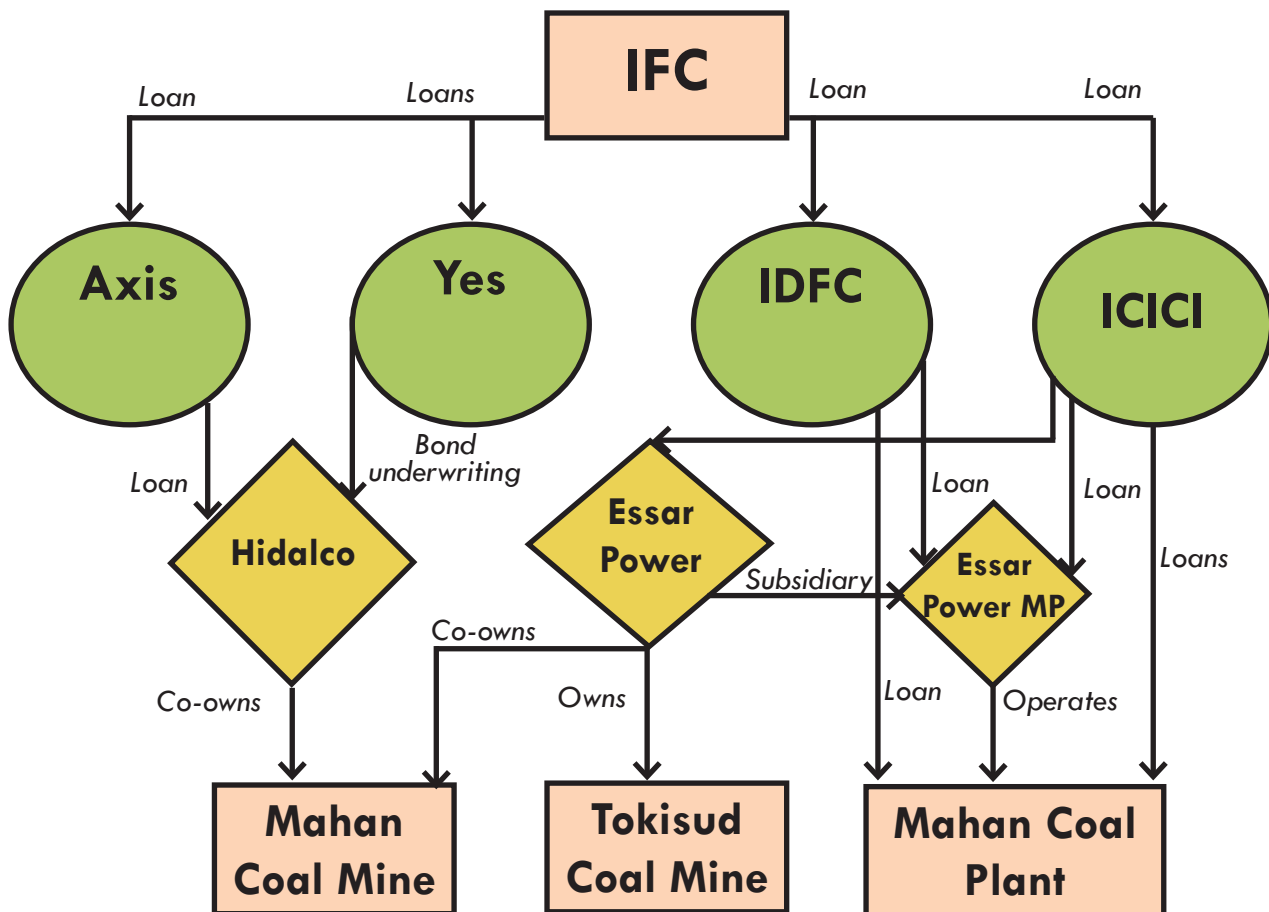
The Indian bank Axis, after receiving a \$100 million investment in a fixed-rate infrastructure bond from the IFC in 2014, participated in a \$1.5 billion syndicated loan to Hindalco. Yes Bank, another recipient of IFC funding, underwrote \$570 million in Hindalco bonds. The company was free to use the capital from these transactions any way it chose, with no strings attached, including to fund the Mahan mine project.

According to Greenpeace, company representatives began surveying and demarcating land for the mine without the consent of people living in or depending on the forest, a clear violation of India’s Forest Rights Act and the IFC Performance Standards. Lalshah and other local residents quickly organized themselves into a resistance movement.

The situation came to a head in April of 2014, when activists formed a human chain around a survey team. “We were fighting for our constitutional rights. Our forest was not for sale,” Lalshah said. As a place of spiritual importance, losing it was unthinkable. “Our gods live in that forest,” he said.

Following the protest, Lalshah and other activists were arrested. He spent 28 days in jail. Despite these setbacks, the movement made an impact. Facing bad press in India and abroad, the government cancelled clearance for the mine in 2015, just the second time in history that it had done so. It was a major victory for the activists.

IFC links to Mahan





Children living near India's Sasan coal plant, which is owned by Reliance Power. The company has received substantial funding from the IFC's commercial bank clients. Photo © Joe Athialy

Yet few are convinced that Essar and Hindalco will walk away from the project, given the amount of money that they and the banks have invested in it. After all, the coal is still there, waiting to be extracted. "We are absolutely convinced the companies will try to open the mine again. But if they do, we will resist nonviolently," Lalshah said.

With the Mahan mine in limbo, Essar turned to another source of coal to feed its plant. The Tokisud coal bloc, which had been put up for auction in Jharkhand state, fit the bill. Essar bought the rights to it in 2015. In doing so, the company essentially transferred the mine's impacts 200 miles east, where it reportedly displaced 1,200 people and destroyed forest area. In 2012, Greenpeace estimated that 1.1 million hectares of forest face similar risks in India due to coal mining.

Perhaps unsurprisingly, the Tokisud mine also bore the IFC's fingerprints. In 2012, ICICI – again, the recipient of substantial IFC funds – participated in a \$330 million syndicated loan to Essar for, among other things, the "development of captive iron ore and coal mines." All told, IFC-funded financial institutions provided and underwrote billions of dollars in financing that flowed to the Mahan plant, associated mines and the companies that owned them.

The banks did this despite being contractually obligated to apply the IFC's Performance Standards, the institution's environmental and social guidelines, to all of their investments subsequent to becoming IFC clients. According to the IFC, doing so helps its financial-sector clients "avoid, mitigate, and manage risks and impacts as a way of doing business in a sustainable way." Clearly, though, the banks did not respect these rules when financing Mahan.

People in Singrauli are bewildered and outraged that the IFC, an institution with a mandate to reduce poverty, has helped fund such projects. “This is not development,” said Hari Dayal Singh, a member of the indigenous Gond tribe. “This is destruction.”

Mahan is just one power station in one corner of rural India. Yet it is part of a global pattern of IFC support for coal.

The IFC is backing coal through its support for large commercial banks in developing countries. These banks are in turn financing the construction or expansion of some of the most controversial projects on the planet. They can be found in South and Southeast Asia, Latin America, the Middle East, and West Africa.

In addition to contributing to climate change, these projects have displaced thousands of people, polluted the air and caused health problems, and harmed biodiversity on land and in the ocean, including threatening critically endangered species. The activists who oppose them have faced imprisonment, violence and even murder.

Yet uncovering the IFC’s role in these projects is difficult. Doing so requires picking through reams of financial records hidden behind the pay walls of financial databases. The IFC does not disclose the clients – known as sub-projects – of the commercial banks it funds. To do so, claims the IFC, would violate the privacy and banking laws of most countries.

“Mandating such disclosure would entail asking [the IFC’s financial intermediary] clients to have each of their own sub-clients/borrowers waive the confidentiality protections that form an integral part of prevailing banking privacy laws and long standing commercial practices,” according to an IFC briefing paper on managing its financial-sector investments from 2015.

Civil society organizations, however, argue that the public has a right to know who is financing the projects that destroy people’s lives and threaten the planet. This is especially true if the IFC – a public institution established with taxpayer money – is involved. Moreover, in many countries, a bank’s duty of confidentiality can be overturned if its clients agree and, in some jurisdictions, if it is in the public interest. There is arguably no issue of greater public interest than global climate change.

This refusal to disclose the sub-projects of its commercial bank clients stands in stark contrast to the IFC’s commitment to transparency with its direct investments in projects and companies. The IFC routinely discloses these investments on its website, in line with the organization’s access to information policy. The IFC has had little trouble securing the consent of its corporate clients – who benefit from this prestigious association – to disclose these financial relationships.

The IFC’s rules also state that people affected by its activities should have access to the institution’s grievance mechanism, the Compliance Ombudsman Advisor. Yet if the IFC does not disclose the sub-projects of its commercial bank investments, people affected by these projects have no way of knowing that the IFC is involved – and do not know they have the right to file a complaint with the grievance mechanism. The only way to resolve this problem is full disclosure of what the IFC’s commercial bank intermediaries are doing.



A man evicted by Bangladesh's Rampal coal plant, which will destroy the world's largest remaining mangrove forest. Photo © Joe Athialy

Without such disclosures, the IFC's role in financing coal projects will continue to remain in the shadows. This denies affected communities – and indeed everyone affected by global climate change – the opportunity to hold the IFC and its clients accountable to their environmental, social and human rights obligations.

Until now, the IFC's role in one of the most potentially destructive coal plants in the world has remained hidden. The project, called Rampal, will be built east of the Mahan plant, across the Indian border in south-western Bangladesh. When operational, Rampal will have a capacity of 1,360 megawatts. India's National Thermal Power Corporation received permission from the Bangladeshi government to build the project under a joint-venture agreement with the Bangladesh Power Development Board.

The problem? The plant will sit a few miles from the world's largest remaining mangrove forest. The 6,200-square-mile Sundarbans, a UNESCO World Heritage site, is home to numerous endangered and threatened species, including the Royal Bengal tiger and the Irawaddy and Ganges dolphins. The forest also supports the lives of 2 million people in India and Bangladesh.

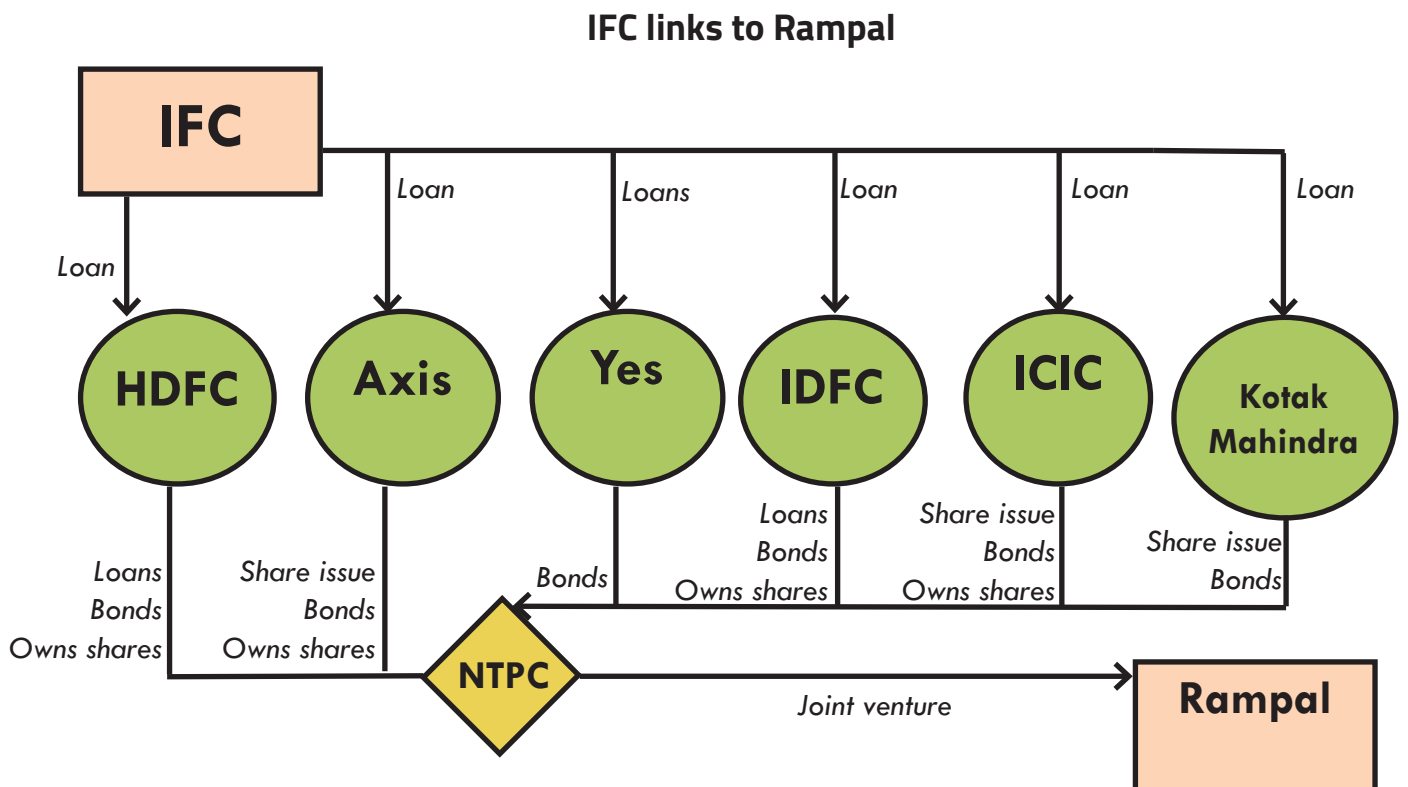
Environmental groups contend that the plant is likely to gradually destroy the Sundarbans through a combination of air and water pollution, changes in water quality, and increased barge traffic. Rampal will require some 58 million gallons of water every day, which will come from the Pussar River. The mangroves of the Sundarbans depend heavily on the river.

Damaging the Sundarbans will harm more than just the local area. It will contribute significantly to global climate change. Mangrove forests store five times the carbon that tropical forests do. When mangroves are destroyed, not only do they lose their ability to store carbon, they release the carbon that they have already sequestered. All of this contributes to a warmer planet.

According to Indian news reports, the World Bank was initially approached to fund Rampal. However, the bank declined, a decision presumably informed by its anti-coal commitments. Three French banks, Credit Agricole, BNP Paribas and Societe Generale, were also approached but refused to get involved. Another prominent capital provider, Norway’s sovereign wealth fund, placed the National Thermal Power Corporation on its exclusion list as part of its efforts to divest from coal.

Yet as these institutions distanced themselves from the projects, six IFC-funded commercial banks arranged billions of dollars in financing for the National Thermal Power Corporation. Between 2005 and 2014, the IFC provided \$520 million in funding to the six banks: ICICI, HDFC, IDFC, Kotak Mahindra, Yes and Axis.

After receiving these funds, the banks went on to provide and arrange \$7.5 billion in National Thermal Power Corporation loans, bonds and share issues. These transactions raised money for general corporate purposes,



meaning the company could use the proceeds as it saw fit, including funding the construction of power projects. Two of the banks, IDFC and HDFC, also own approximately \$35 million in National Thermal Power Corporation stocks.

In the end, despite the World Bank's refusal to get involved in Rampal, the IFC's major financial-sector clients in India have become the biggest enablers of the project.

The problem is not limited to Asia. In South America, the open-pit Cerrejon coalmine in Colombia is one of the largest in the world. Since breaking ground in 1976, the mine and associated facilities have swallowed 69,000 hectares of land, most of which has belonged for generations to the indigenous Wayúu people.

The mine has been catastrophic for the Wayúu. They have reportedly suffered severe abuses, including forced displacement and the destruction of their villages, according to human rights groups. Communities living near the mine say it has caused serious environmental damage, including the contamination of water sources. Media reports contend that children in the area continue to die of thirst, as the mine consumes 7.1 million gallons of water per day, according to company officials.

The IFC is exposed to Cerrejon through a relatively exotic financial instrument called a credit risk guarantee. In June of 2014, the IFC provided a \$90 million guarantee to Credit Agricole, a large French bank, one of the first such transactions offered by the World Bank Group member. The guarantee covered a \$2 billion portfolio of Credit Agricole's existing assets. The point of the guarantee was simple: by shouldering some of the burden of potential defaults within the bank's current portfolio, the IFC was encouraging Credit Agricole to issue further risky loans in emerging markets.

Emerging markets such as Colombia, where the Swiss-British company Glencore is part of a consortium that operates the Cerrejon mine. Just 11 months after receiving the credit risk guarantee from the IFC, Credit Agricole joined a consortium of banks that loaned Glencore a staggering \$6.8 billion. In an email to Inclusive Development International, the IFC said the Glencore loan did not fit within the terms of the credit risk guarantee provided to Credit Agricole: "The project is not eligible or part of the reference portfolio that IFC guarantees."

While it may well be true that the Glencore loan was not guaranteed by the IFC, this misses the point. The stated purpose of the IFC's guarantee was to reduce risk from Credit Agricole's balance sheet, thus encouraging the bank to take on more risk in the developing world. This is exactly what the bank did in issuing the loan to Glencore.

Meanwhile, in Africa, the IFC is linked with projects such as the planned Aboano coal plant in Ghana. In 2017, construction will begin on the 700-megawatt project, which could expand to as large as 2,000 megawatts, resulting in one of Africa's largest coal plants. The IFC bought equity and made other investments in the pan-African commercial bank Ecobank, which has provided construction loans for the project's owner, Volta River Authority.

The IFC invested in Ecobank in 2007 and 2010. The institution maintains that while older investments such as these were flawed, things have improved greatly in recent years. Since 2012, when the latest version of its social and environmental guidelines, the Performance Standards, went into effect, the IFC claims it has become much better at monitoring and mitigating the risks of its financial-sector clients.

“We have recognized various shortcomings of the past approach and believe that the current approach significantly improved our environmental and social risk management practice, including ability to support financial intermediary clients’ capacity to manage environmental and social risks,” the IFC said in a statement emailed to Inclusive Development International in May.

Yet what’s happening in another country, the Philippines, belies that argument. The Southeast Asian nation is in the midst of a coal boom. Over 40% of its energy comes from coal, a proportion that will increase rapidly in the coming years. In 2015, the government approved plans to construct 25 new coal-fired plants, which will nearly triple the number in operation today.

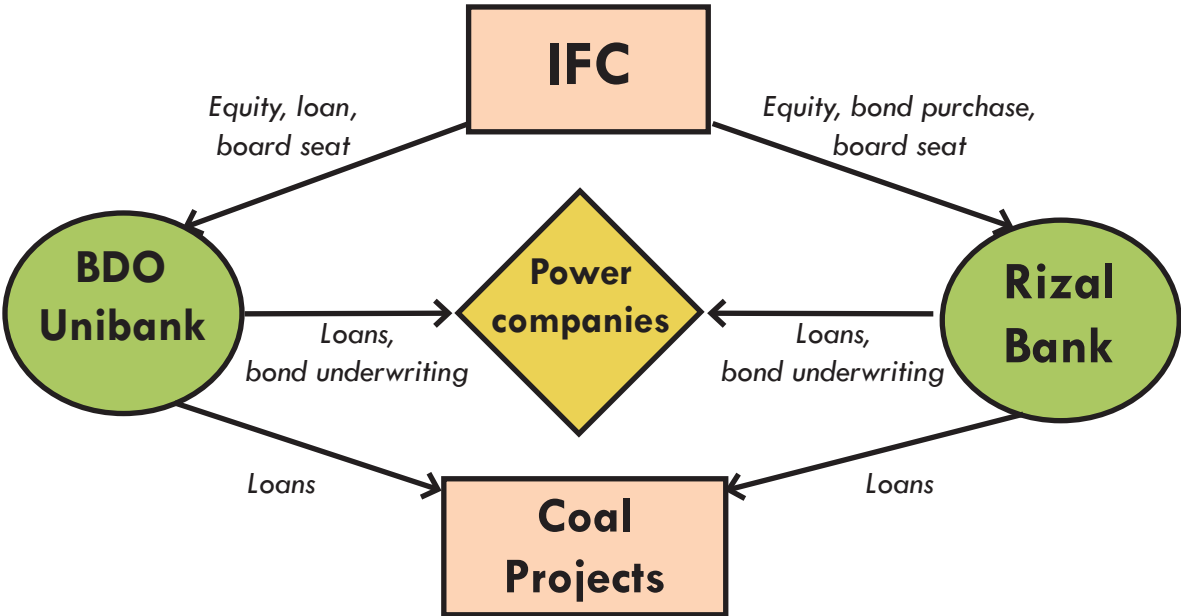
The IFC is fueling this coal expansion through its extensive financial support for two Philippine commercial banks. The IFC owns equity in both banks, Rizal and BDO Unibank. It purchased the Rizal equity in 2013, and in 2015 it bought \$75 million in the bank’s bonds, after the latest, supposedly stronger version of the Performance Standards went into effect..

Rizal and BDO Unibank have financed at least 20 new coal projects – either directly or through the companies that own them – since 2013, when the World Bank announced its coal ban. All told, these projects will create 11,653 megawatts of new coal capacity in the Philippines.

The proposed Lanao Kauswagan power station is typical of the banks’ investments. The 540-megawatt plant is expected to begin operating in early 2017. Activists warn that the project will harm the rich marine life in the adjacent Panguil Bay, along with impoverishing fishing families who depend on the bay for their livelihoods.

In June of 2015, Rizal was part of a consortium of banks that provided three loans worth a total of \$390 million to build Lanao Kauswagan. In addition, Rizal and BDO Unibank have underwritten \$1.15 billion in bonds for the Ayala Corporation, which owns approximately 80% of the power plant.

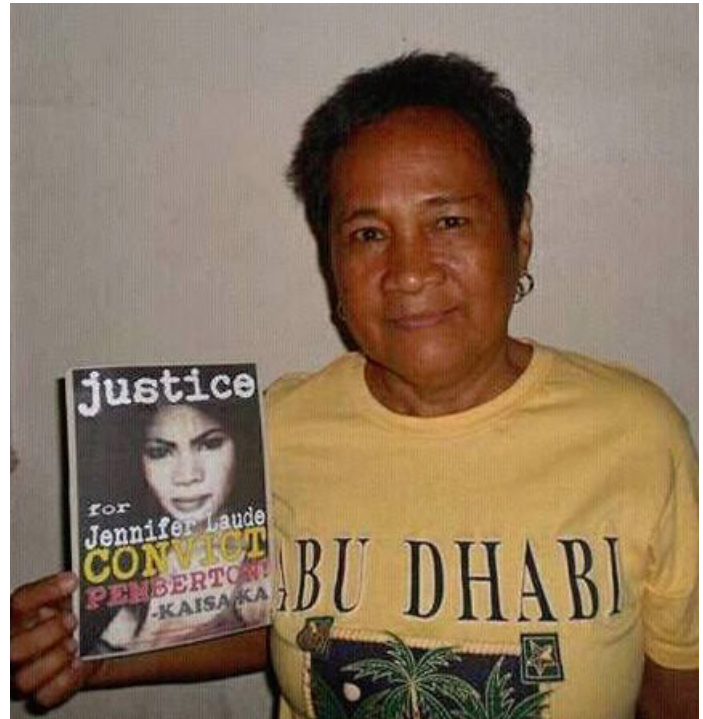
IFC links to coal projects in the Philippines



Philippines President Rodrigo Duterte has defended such projects, saying they are necessary to meet the country's development needs. Yet opposition to coal is strong in the Philippines. "Most of these new plants are being resisted," said Gerry Arances, of the Center for Energy, Ecology and Development. "It's gone beyond local opposition to individual projects. It's now a national campaign."

In July 2015, protestors marched nearly 60 miles to voice their discontent with Lanao Kauswagan and its health and environmental hazards. In March 2016, former U.S. Vice President Al Gore called on over 700 environmental activists in the Philippines to advocate for renewable energy.

For good reason. The Philippines, an island nation that has been ravaged by massive storms in recent years, is consistently ranked among the world's most vulnerable to climate change. A 2016 study found that as many as 960 Filipinos die prematurely each year due to pollution from coal-fired plants, a number that could more than double at the current rate of expansion.



Gloria Capitan, an anti-coal activist in the Philippines, was murdered in July 2016. Photo © Valentino de Guzman.

Despite widespread public opposition, speaking out against these projects has become increasingly dangerous. An estimated 33 environmental activists were killed in the Philippines last year. The transparency watchdog Global Witness has called the country Asia's most dangerous for land and environmental defenders.

"Most communities that oppose coal projects face intimidation and human rights violations," Arances said. Activists face threats from not only the coal companies, but also from local police, officials and criminal networks who collude with them. "You can only imagine the culture of impunity that is entrenched," he said.

Despite these risks, activists continue to fight the expansion of coal. Gloria Capitan was one such campaigner. Capitan was active in the Coal-Free Bataan Movement, an alliance of private citizens and activists opposed to new coal projects in the province.

Capitan paid the ultimate price for her work. On the night of July 1, the grandmother of 18 was murdered by two assassins on motorbikes. She had faced threats and intimidation before, and those who knew her say there is little doubt she was killed because of her activism.

"We've lost a gem," said Valentino de Guzman of the Philippine Movement for Climate Justice. "She always had a smile when you approached her. But she was also a vocal and effective leader. She knew how important saying no to coal was to Bataan, because she and her family experienced the impacts firsthand." Capitan's granddaughters suffered from health problems associated with exposure to coal dust, de Guzman said.

Capitan opposed three new projects on Bataan, all of which are linked with the IFC: The expansion of the GN Power Mariveles Power Plant by 1,200 megawatts; the planned 600-megawatt Mariveles Power Station, co-owned by San Miguel Power; and the planned 900-megawatt Limay Power Station fully owned by San Miguel Power. These projects and companies have benefitted from hundreds of millions of dollars in financing from Rizal and BDO Unibank.

“The World Bank is masquerading as an institution that is concerned about climate change. But here they are indirectly funding these coal projects. They are funding projects that led to the death of an environmentalist.”

At the time of her death, Capitan did not know that the World Bank, through the IFC, was indirectly financing the plants. Indeed, she didn't know that the IFC had become an enormous hidden enabler of the coal boom in the Philippines. That this has happened in spite of the World Bank's pledge to get out of the coal business in 2013 has made it all the more difficult for activists to comprehend.

“The World Bank is masquerading as an institution that is concerned about climate change. But here they are indirectly funding these coal projects. They are funding projects that led to the death of an environmentalist,” de Guzman said.

Despite the enormous damage the IFC has caused in the Philippines, the institution finds itself in a unique position to influence – and possibly curtail – the country's coal expansion. It bought \$149 million of Rizal's shares, and \$150 million of BDO Unibank's, in addition to providing \$276 million in other support to the banks. The IFC also has representatives on the boards of both. These ownership stakes and board seats, along with the stamp of approval conveyed by its investments, give the IFC outsize influence over the two banks.

As the coal boom gathers pace, the IFC could use its leverage with Rizal and BDO Unibank to ensure that neither bank finances another harmful coal project. Through these banks, it could compel the companies to rectify the harm they have caused, fall into line with the IFC's social and environmental standards, and begin building renewable energy projects that will slow the pace of climate change, not accelerate it.

Indeed, the IFC could do this in many countries around the world in which it has engaged in reckless private-sector lending. If it doesn't, the consequences could be dire – for the Philippines, Bangladesh and India, but also for the world. “If Asia implements the coal-based plans right now, I think we are finished,” President Kim said in May. Without action from the IFC, those words risk becoming prophecy.



