

## **World Bank Development Policy Loans and Climate Change: Is the Bank providing the Right Incentives for Low-Carbon Development in Indonesia?**

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The World Bank acknowledges that “all development is now taking place in a world shaped by climate” and that the poor are the hardest hit.<sup>i</sup> As such, the Bank states that it is committed to help countries onto a low-carbon development path. One of the Bank’s core climate change objectives is to avoid exceeding a 2°C warmer world – the globally agreed limit. Meeting this challenge requires nothing less than “economic transformations and net-zero emissions.” The Bank maintains that creating the right incentives for this economic transformation is the key. Towards this end, the World Bank has specifically pledged to assist countries to end fossil fuel subsidies.<sup>ii</sup>

Through Development Policy Loans or DPLs, the World Bank influences government policies and institutions. The policy and institutional reforms implemented under DPLs are often aimed at increasing investments in a country. As such, DPLs can influence investment decisions towards either carbon-intensive development or low-carbon development. For example, DPL reforms sometimes include tax breaks or incentives for fossil fuel development. On the other hand, a DPL may include a new legal framework to support the entry of renewables into the market. Reforms implemented under DPLs can drive development trends for many years after the World Bank formal operation has ended. For all of these reasons, it is critical that DPLs are adequately assessed for climate change risks and designed to specifically support policies that provide the right incentives to prioritize low-carbon development over carbon-intensive development.<sup>iii</sup>

This paper reviews recent World Bank DPLs in Indonesia approved from 2007 to 2015 totaling \$1.4 billion US dollars. Indonesia is a key country in the climate change crisis. It is both highly vulnerable to climate change impacts and its greenhouse gas emissions (GHG) per capita – already the sixth largest globally – are growing faster than GDP per capita. The following assessment concludes that in the case of Indonesia the reviewed DPLs support a very troubling development path because:

- **By supporting both fossil fuel incentives and renewable energy incentives, the DPLs did not prioritize low-carbon development or displace any planned coal investments and thus, did not provide the right incentives for an economic transformation onto a low-carbon development path for Indonesia.**
- **The World Bank DPLs supported many incentives for fossil fuel development, including subsidies for coal-based power plants and government contract incentives for natural gas exploration. Both of these incentives contradict the Bank’s pledge to phase out fossil fuel subsidies and directly threaten the 2 degree global limit.**
- **The DPLs did not provide adequate support for low-carbon alternatives. For example, there were no measures directed at solar or wind power in the infrastructure or energy DPLs for Indonesia since 2007.**
- **Environmental Reviews of the DPLs did not adequately consider the climate change risks of Bank-supported reforms. The World Bank failed to consider several DPL measures that provide fossil fuel incentives and deforestation risks and used inappropriate baselines for assessment of DPL-associated impacts.**

World Bank development policy loans represent a crucial opportunity to re-orient countries onto a low-carbon development path and better protect climate vulnerable poor communities. As such, the World Bank must heed its own advice on confronting climate change by providing the right incentives for a clear pathway to low-carbon development. To this end, the World Bank should adopt:

- 1. Robust Climate Change Assessment for DPLs** – The Indonesia case demonstrates how critical it is to fully assess and adequately address the climate risks associated with reforms contained in Development Policy Loans. Such operations reach far beyond the impacts of project investments and yet they are not adequately assessed by any Bank operational policy. The Bank should revise Operational Policy 8.60 on Development Policy Lending to ensure adequate assessment and mitigation of climate risks.<sup>iv</sup>
- 2. Sufficient Low-Carbon Incentives** - DPLs must be specifically designed to promote incentives that prioritize low-carbon development over carbon-intensive options. DPL operations should be assessed to determine if all possible low-carbon alternatives have been adequately supported before any other options are considered.
- 3. Comprehensive End to Fossil Fuel Subsidies** – The World Bank has taken a very limited approach to phasing out fossil fuel subsidies by targeting largely consumer subsidies mainly through decreasing government price-support for electricity and fuels. The Bank often does not recognize its own promotion of fossil fuel subsidies largely to producers through support for government guarantees, infrastructure investment incentives, Public-Private Partnerships, and World Bank Group finance itself. Producer subsidies are the drivers of investment and, in the case of those provided to fossil fuels, a significant barrier to low-carbon development.
- 4. Elimination of All Measures Supporting Fossil Fuel Exploration** – Scientists have determined that at least two-thirds of the world’s current, proven reserves of oil, gas, and coal must not be burned if we are to avoid raising global temperatures above 2 degrees Celsius – the globally agreed limit. Thus, any DPL measures supporting fossil fuel exploration are directly incompatible with preventing the worst impacts of climate change. The Asian Development Bank specifically excludes finance for oil and gas exploration.

## Indonesia and Climate Change

Indonesia is a key country in the struggle against climate change. Indonesia is highly vulnerable to climate change impacts for many reasons. For one, it is a country of over 13,000 islands making it exceptionally vulnerable to sea-level rise. For another, it is highly dependent on the agriculture sector, which faces increasing and variable threats from climate change.

At the same time, Indonesia’s greenhouse gas (GHG) emissions are globally significant and rapidly increasing. According to data through 2011, Indonesia is the sixth largest GHG emitter in the world in terms of total emissions and per capita emissions.<sup>v</sup> It emits more per capita emissions than China or Brazil with only Canada, US, Russia, Japan and the EU emitting more per capita. GHG emissions per capita are growing faster than GDP per capita.<sup>vi</sup>

The largest source of Indonesian GHG emissions stem from land use change and forestry (LUCF) – mainly the cutting and burning of tropical forests and peat lands – accounting for 62 percent of emissions in 2011. When being cleared, Indonesia’s forests are a significant global source of GHGs. Indonesia has the third largest tropical

forest in the world. If protected and rehabilitated, Indonesia's tropical forests are vital to halting climate change as a significant source of carbon storage.<sup>vii</sup> According to the Intergovernmental Panel on Climate Change (IPCC), as much as 24-30 percent of total climate mitigation potential can be provided by halting and reversing tropical deforestation.

Even when emissions associated with LUCF are excluded, Indonesia is still the eighth top GHG emitter in the world. Emissions from the energy sector, the second largest source in Indonesia (over 25 percent in 2011), are growing fast. From 1994 to 2004, Indonesia's emissions per capita from fossil fuels grew faster than China's and India's.<sup>viii</sup> Unfortunately, Indonesia's energy sector development plans out to 2024 rely predominantly on coal. If this plan goes forward, by 2025 Indonesia's GHG emissions from fossil fuels will surpass current emissions from LUCF. Clearly, the current plans are not a low-carbon path and are not consistent with keeping global temperature rise below 2 degrees.<sup>ix</sup>

### **The World Bank's Development Policy Loans in Indonesia**

In the last decade, the World Bank has had a significant amount of DPL operations in Indonesia. According to the World Bank website no less than 20 DPLs totaling more than \$8.8 billion. Several of these operations have climate change significant reform measures, including four recent Infrastructure DPLs and a current Energy DPL. These DPLs directly and indirectly support incentives for both carbon-intensive development and low-carbon development.

Infrastructure DPLs – From 2007 to 2011, the World Bank provided four Infrastructure Development Policy Loans (I-DPL) equaling \$850 million to support the Government of Indonesia's (GOI) infrastructure master plan. The I-DPL series focused on, *inter alia*, electricity and roads; an investment framework for public-private partnerships (PPP); and land acquisition reforms. The World Bank I-DPL series supported several incentives for carbon-intensive development.

First, **over 70 percent of the GOI's priority electricity projects of its infrastructure master plan were coal power plants.**<sup>x</sup> Thus, higher government expenditure on electricity infrastructure, which was specifically mandated and enabled by the World Bank I-DPL funds, contributed to the development of coal projects.<sup>xi</sup> Specifically, some of the coal power plants are projects of the Indonesian state power company (or PLN) making them direct recipients of the higher GOI infrastructure expenditures. In addition to electricity, the I-DPL targeted increased expenditure on roads.<sup>xii</sup> Large-scale road projects often open up previously less accessible forests to expanded deforestation. For example, in Indonesia there are large-scale road projects planned in Sumatra and Kalimantan that could potentially lead to expanded deforestation.<sup>xiii</sup> This is especially concerning given the World Bank notes the weak capacity of the GOI in managing the protection of its forests.<sup>xiv</sup>

Second, through the World Bank-supported PPP investment framework, a number of government incentives or subsidies have been provided, including: VAT tax exemptions, import duty exemptions, income tax rate reductions, land tax exemptions, and building tax exemptions. **These subsidies are provided to private investors and apply to power projects whether fossil fuel-based or renewable.** Moreover, the PPP projects offered by the GOI are heavily skewed towards coal projects<sup>xv</sup> – a fact the Bank was aware of before the DPL operation. In addition, as a member of the G-20, these measures contradict Indonesia's 2009 commitment to phase out fossil fuel subsidies in an effort to specifically address climate change and boost investment in clean energy sources.<sup>xvi</sup>

Third, as part of the PPP investment framework, the I-DPL helped establish the Indonesia Infrastructure Guarantee Fund (IIGF).<sup>xvii</sup> The IIGF was created to provide government guarantees, which are subsidies according to the OECD, to infrastructure PPP projects.<sup>xviii</sup> **The only power sector projects to receive or still under consideration for IIGF guarantees are four coal power plants**, including the first IIGF guarantee of \$30 million to the 2,000 MW Central Java Coal Power Plant (see Box 1).<sup>xix</sup> Subsequent to the I-DPL support, the World Bank also provided a direct loan of \$30 million to the IIGF.

Fourth, the I-DPL series included **land acquisition reforms with the aim to expedite the process and clear the way for large infrastructure projects**. The GOI's new 2012 land acquisition law, which was guided by the I-DPL<sup>xx</sup>, provides more transparent compensation to land owners and stricter timetables to accelerate the land-acquisition process.<sup>xxi</sup> News reports indicate coal power plants and road projects as some of the first projects intending to utilize the new law.<sup>xxii</sup> Local communities surrounding the Central Java Coal Power Plant contend the new law is being used to force land owners off their land to make way for the highly contested coal project (see Box 1).

### Box 1. Central Java Coal Power Plant – The “Model” PPP Project

If any energy project can be considered an outcome of the World Bank's Infrastructure-DPL program, the Central Java Coal Power Plant is it. The 2,000 MW coal-fired plant in Batang was selected as one of the “model” projects of the new PPP investment framework implemented under the I-DPL program. From 2008 to 2011, the IFC<sup>xxiii</sup> was the Transaction Advisor to the state power company, PLN. In this role, the IFC prepared and promoted the project to investors and in turn secured the coal plant's finance. In October 2011, it was the first project to receive a government guarantee of \$30 million from the Indonesian Infrastructure Guarantee Fund or IIGF, which was established under the I-DPL and partially funded by the World Bank.<sup>xxiv</sup>

Despite all of the Bank assistance and the I-DPL's assurance of strengthened government capacity for Environmental Impact Assessments (EIA), the “model” PPP project is strongly opposed by thousands of local residents who insist that the coal plant will harm the environment and threaten their livelihoods.<sup>xxv</sup> The coal plant is located on the coast and the Batang regent passed a special bylaw to exempt the plant from restrictions of development in the vicinity of a protected marine park.<sup>xxvi</sup> This decision was hotly contested by many local people and authorities.

After complaints from the community, in February 2015 the Ministry of Environment and Forests visited the project site and subsequently recommended the GOI move the coal project to a different site.<sup>xxvii</sup> The EIA has been criticized as being inadequate on several grounds including unspecified pollution control technology and lack of alternatives analysis. In addition, the coal plant conflicts with Indonesia's commitments on climate change. The IIGF's guarantee to the Central Java Coal Power Plant is a government subsidy according to the OECD and therefore undermines Indonesia's G-20 and APEC commitments to phase out fossil fuel subsidies.

The land acquisition process has reportedly been plagued by manipulation, coercion and intimidation.<sup>xxix</sup> The project has been delayed for over four years due to approximately 50 land-owners' refusal to give up their land representing about 13 percent of the project area. The state power company, PLN, is resorting to a consignment clause in Indonesia's 2012 Land Acquisition Law that would force the remaining residents off their land (note the adoption of this law was a World Bank I-DPL benchmark).<sup>xxx</sup>

In October 2013, local and global civil society groups sent a letter calling on the World Bank to request that the government of Indonesia cancel its IIGF loan guarantee.<sup>xxxi</sup> Even though the “model” PPP project appears to

have a highly flawed EIA, stands to threaten local livelihoods, and conflicts with low-carbon development/phasing out fossil fuel subsidies, the World Bank dismissed the request and the communities' concerns stating the Bank was not involved in the Central Java Power Plant project.<sup>xxxii</sup>

Energy DPL – Currently, the World Bank has an Energy DPL for \$500 million in Indonesia that was approved this past December.<sup>xxxiii</sup> **This DPL has prior actions, triggers and targeted outcomes aimed at increasing investment in natural gas, including upstream operations of exploration.** One indicative trigger is that the GOI adopts “revised fiscal terms for production sharing contracts to increase investment into the upstream/midstream [gas operations], including incentives for developing marginal fields and unconventional resources”.<sup>xxxiv</sup> Unconventional resources typically include deep water reserves and the use of hydraulic fracturing or fracking to extract oil or natural gas from deep underground. The specific “incentives” are unclear, but government-based incentives can often be a form of subsidy, e.g., contract terms that provide reduced taxation or royalty rates.

Moreover, **providing incentives for gas exploration is in direct conflict with the 2 degree goal.** Scientists have determined that at least two-thirds of the world’s current, proven reserves of oil, gas, and coal must not be burned if we are to avoid raising global temperatures above 2 degrees Celsius. Thus, any incentives for fossil fuel exploration are directly incompatible with preventing the worst impacts of climate change.

**The DPL also includes a trigger that requires the GOI to introduce regulations that incentivize accelerated investment in gas processing and transportation, e.g., pipelines.**<sup>xxxv</sup> All such projects would potentially be linked to significant increased GHG emissions from associated end use burning of gas and potentially significant deforestation in the Indonesian context.

Although the World Bank only mentions natural gas as a target of the improved energy investment conditions, the letter from the GOI to the World Bank regarding the DPL and GOI progress on improved investment conditions speaks of a new law aimed at both oil and gas investments.<sup>xxxvi</sup> In addition, **the Energy-DPL’s required prior action includes adoption of the Ministry of Energy and Mineral Resources Regulation 15/2015, which is a time-bound process for managing expiring production sharing contracts for both oil and gas.**

In other measures, the DPL expedites the licensing procedure for Independent Power Producers (IPPs). One of the DPL’s prior actions includes the Minister of Energy and Mineral Resources and the Minister of Environment and Forestry handing over the licensing authority for setting up IPP projects to the Indonesia Investment Coordinating Board, whose mandate is to increase investments not protect the environment or manage the forests. **This reform would seem to weaken the environmental checks and balances of the government. The World Bank has already noted that the GOI remains weak on environmental impact assessments (EIAs) and forest management.**

The GOI’s current electricity infrastructure plan through 2024 continues the country’s move toward greater reliance on coal with plans to have 60 percent of the 70 GW of the planned new power generation to be coal-fired with the remaining 40 percent split evenly between gas and renewables (hydropower and geothermal).<sup>xxxvii</sup> **There are no measures in the current Energy-DPL to address the GOI’s incentives/subsidies for coal investments some of which were put in place through the Bank’s own previous I-DPL.**

Previous DPL Reforms and Deforestation – It is important for the Bank to better understand and assess the cumulative impacts of its DPLs as reforms may drive development trends for many years after the Bank formal DPL program has ended. For example, World Bank policy lending in Indonesia a decade ago promoted reforms to increase investment in palm oil. Bank-required reforms included, *inter alia*, the removal of restrictions on

foreign investment in oil palm plantations.<sup>xxxviii</sup> **These reforms contributed to Indonesia's significant increase in palm oil investments over the last decade** – ultimately becoming the world's largest producer of palm oil. To this day, some of these investment incentives still remain in place and Indonesia continues to increase its acreage of oil palm plantations.

**Even though the World Bank has supported measures aimed at improving government capacity to manage and protect forests, Indonesia remains significantly weak on this front. As such, palm oil investments have been one of the main drivers of deforestation and forest fires in Indonesia.** Greenpeace research found that palm oil production was the single biggest cause of deforestation in Indonesia between 2009 and 2011, accounting for about a quarter of all forest loss over that period.<sup>xxxix</sup> World Bank DPLs need to address the root causes of climate change, including investment incentives supported by previous World Bank DPLs.

### **Climate Change Considerations and Risk Assessment**

In addition to the carbon-intensive development measures discussed above, both the Infrastructure-DPL and the Energy-DPL had measures aimed at low-carbon development of the energy sector. Both DPLs supported adoption and revisions to the GOI's new Geothermal Law to help encourage geothermal investments. Both DPLs supported electricity tariff reforms, which would reduce consumer subsidies and potentially reduce consumption of electricity generated from fossil fuels.

However, the DPLs do not appear to be adequately supporting low-carbon options. For one, the World Bank notes that the GOI's low-carbon legal framework still has many gaps but the only current Energy-DPL measure related to other renewables is a trigger that requires the GOI to "review performance of existing schemes promoting market-based mechanisms for development of renewable energy". **The Bank notes Indonesia's potentially significant solar resources in the Eastern Islands, but does nothing to specifically support development of these solar resources or other renewables outside of geothermal.**

On the geothermal front, the new Geothermal Law supported by the DPLs does reduce some obstacles to geothermal investments. However, it is short on incentives and the DPLs targeted outcomes are general policy improvements and not specific targets on GW of geothermal generation. It is significantly weaker than the Energy DPLs approach to natural gas, which specifies a result indicator of an increase in domestic "gas supply of a minimum of 125 million cubic feet per day by end-2016."<sup>xl</sup>

In addition, the World Bank's environmental review for both DPLs recognize that the energy infrastructure plan supported by the DPLs posed potential significant negative environmental impacts, including increased emissions of GHGs. However, both DPLs came to the conclusion that overall the measures supported by the World Bank's DPL would result in net positive environmental impacts. In both cases, the Bank's environmental reviews appear to be selectively considering the potential policy outcomes and using inappropriate baselines to conclude overall positive results.

For example, **in the case of the Infrastructure DPL, the Bank's environmental review focused mainly on electricity tariff reform and did not consider the impacts from increased government expenditures, guarantees or tax incentives supporting coal projects – and thus concluded the operation overall would have positive environmental outcomes.** The DPL stated it would address the potential for increased GHGs by strengthening the government's capacity to conduct environmental impact assessments (EIAs). However, 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 Bank also did not include any indicative

triggers or targeted outcomes of the DPL related to improved EIA capacity. In the case of the Central Java Coal Power Plant, the Bank's ability to improve the GOI's EIA capacity is in question (see Box 1).

Continuing the selective approach, the current Energy DPL's environmental review provided an estimate of GHG emissions but only included estimates for prior actions and not for any of the DPL's triggers going forward, which include: contract incentives for oil and gas exploration, development of marginal fields and unconventional resources and investment incentives for gas production and pipelines. In addition, the DPL's review concludes there could be a potential reduction in GHGs compared to a business as usual baseline. However, **the baseline appears to be assuming future power generation is fully based on coal resources and thus any gas generation is considered a reduction in GHGs. However, the DPL states it "does not anticipate reducing the GOI planned coal generation". Instead the DPL will "reduce the risk of an even greater share from coal."** This does not appear to be an ambitious low-carbon outcome. Lastly, **the Bank also did not assess land use change or deforestation risks of the DPLs.** At least in the case of the planned large-scale road projects and the incentives for gas pipelines, significant deforestation is a potential risk in Indonesia.

### **Main Findings**

The World Bank's Infrastructure and Energy DPLs in Indonesia supported both low-carbon and carbon-intensive incentives. Unfortunately, the climate crisis dictates that such a strategy will result in exceeding 2 degrees of warming. In addition to there being no room in the carbon budget for exploring and adding to already proven fossil fuel reserves, 27 leading climate and energy scientists have stated that "There is no room in the remaining carbon budget for building new unabated coal power plants, even highly efficient ones, given their long lifetimes.<sup>xii</sup> Thus, the World Bank's DPL operations in Indonesia needed to provide incentives that would prioritize no-carbon options over fossil fuels. However, the DPLs instead:

- **By supporting both fossil fuel incentives and renewable energy incentives, the DPLs did not prioritize low-carbon development or displace any planned coal investments and thus, did not provide the right incentives for an economic transformation onto a low-carbon development path for Indonesia.**
- **The World Bank DPLs supported many incentives for fossil fuel development, including subsidies for coal-based power plants and government contract incentives for natural gas exploration. Both of these incentives contradict the Bank's pledge to phase out fossil fuel subsidies and directly threaten the 2 degree global limit.**
- **The DPLs did not provide adequate support for low-carbon alternatives. For example, there were no measures directed at solar or wind power in the infrastructure or energy DPLs for Indonesia since 2007.**
- **Environmental Reviews of the DPLs did not adequately consider the climate change risks of Bank-supported reforms. The World Bank failed to consider several DPL measures that provide fossil fuel incentives and deforestation risks and used inappropriate baselines for assessment of DPL-associated impacts.**

### **Recommendations**

World Bank development policy loans represent a crucial opportunity to re-orient countries onto a low-carbon development path and better protect climate vulnerable poor communities. As such, the Bank must heed its

own advice on confronting climate change by providing the right incentives for a clear pathway to low-carbon development. To this end, the World Bank should adopt:

1. **Robust Climate Change Assessment for DPLs** – The Indonesia case demonstrates how critical it is to fully assess and adequately address the climate risks associated with reforms contained in Development Policy Loans. Such operations reach far beyond the impacts of project investments and yet they are not adequately assessed by any Bank operational policy. The Bank should revise Operational Policy 8.60 on Development Policy Lending to ensure adequate assessment and mitigation of climate risks.<sup>xlii</sup>
2. **Sufficient Low-Carbon Incentives** - DPLs must be specifically designed to promote incentives that prioritize low-carbon development over carbon-intensive options. DPL operations should be assessed to determine if all possible low-carbon alternatives have been adequately supported before any other options are considered.
3. **Comprehensive End to Fossil Fuel Subsidies** – The World Bank has taken a very limited approach to phasing out fossil fuel subsidies by targeting largely consumer subsidies mainly through decreasing government price-support for electricity and fuels. The Bank often does not recognize its own promotion of fossil fuel subsidies largely to producers through support for government guarantees, infrastructure investment incentives, Public-Private Partnerships, and World Bank Group finance itself. Producer subsidies are the drivers of investment and, in the case of those provided to fossil fuels, a significant barrier to low-carbon development.
4. **Elimination of All Measures Supporting Fossil Fuel Exploration** – Scientists have determined that at least two-thirds of the world’s current, proven reserves of oil, gas, and coal must not be burned if we are to avoid raising global temperatures above 2 degrees Celsius – the globally agreed limit. Thus, any DPL measures supporting fossil fuel exploration are directly incompatible with preventing the worst impacts of climate change. The Asian Development Bank specifically excludes finance for oil and gas exploration.

## End Notes

<sup>i</sup> See <http://www.worldbank.org/en/topic/climatechange/overview> This paper reflects the contents of this World Bank webpage on March 14, 2016.

<sup>ii</sup> See <http://www.worldbank.org/en/news/feature/2015/03/18/5-ways-reduce-drivers-climate-change>

<sup>iii</sup> The World Bank also provides technical assistance (TA) and advisory services that are often associated with DPLs. This paper does not cover these types of assistance. However, these types of assistance also influence government policies and investment incentives and thus, need to be adequately assessed and appropriately designed.

<sup>iv</sup> Regarding the assessment of climate risks of DPLs, the current policy OP8.60 only suggests a non-binding “toolkit” to be used at the task team’s discretion.

<sup>v</sup> See <http://www.wri.org/blog/2014/11/6-graphs-explain-world%E2%80%99s-top-10-emitters>

<sup>vivi</sup> World Bank, 2010. Republic of Indonesia, Climate Change Development Policy Loan: Program Document. International Bank for Reconstruction and Development, World Bank. April 26, 2010.

<sup>vii</sup> That is, the amount of carbon dioxide emissions that would be avoided by halting tropical deforestation, *plus* the carbon dioxide that would be removed from the atmosphere by continuing to regrow tropical forests at the current pace. IPCC, 2014: Climate Change 2014: Synthesis Report. Contribution of Working Groups I, II and III to the Fifth Assessment Report of the Intergovernmental Panel on Climate Change [Core Writing Team, R.K. Pachauri and L.A. Meyer (eds.)]. IPCC, Geneva, Switzerland. <http://www.ipcc.ch/report/ar5/syr/>

<sup>viii</sup> ESMAP, 2012. Planning for a Low Carbon Future: Lessons Learned from Seven Country Studies (Paper 73508). Energy Sector Management Assistance Program (ESMAP), World Bank. September 2012

<sup>ix</sup> According to the World Bank's 2012 Low Carbon ESMAP paper [provide citation]: Considering Indonesia's GHG emissions baseline, this energy infrastructure plan is not consistent with emissions of 2 tCO<sub>2</sub> per capita. This is the level of per capita emissions that is often associated with a 50 percent chance of keeping the global average temperature rise to less than 2°C.

<sup>x</sup> PricewaterhouseCoopers, 2011. Electricity in Indonesia: Investment and Taxation Guide 2011.

<sup>xi</sup> 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.

<sup>xii</sup> *Ibid.*

<sup>xiii</sup> Government of Indonesia planned road projects include, *inter alia*: Trans Sumatra Toll Road (Palembang-Indralaya Toll Road currently under development); Balikpapan-Samarinda Toll Road in East Kalimantan; and Manado-Bitung Toll Road in North Sulawesi. Source: 2013 PPP Book.

<sup>xiv</sup> World Bank, 2010. Republic of Indonesia, Climate Change Development Policy Loan: Program Document. International Bank for Reconstruction and Development, World Bank. April 26, 2010.

<sup>xv</sup> The only power projects considered for government guarantees under the PPP investment framework are the 2,000 MW Central Java Coal 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 (600 MW) and the Jambi Mine Mouth Coal Plant (2 x 400 MW). The only two power sector projects listed for offer in the 2013 and 2015 PPP Book of the GOI are the Tebo Mine Mouth Coal Plant (400 MW), Jambi and the Karama hydropower plant, West Sulawesi. [The specific comparison of the number of PPP renewable projects vs. fossil fuel projects is forthcoming.]

<sup>xvi</sup> G-20 Leaders Statement The Pittsburgh Summit 2009, para 29; available at

<http://www.g20.utoronto.ca/2009/2009communique0925.html>

<sup>xvii</sup> Prior Action 6 in IDPL3: Issuance of Government Regulation establishing the Guarantee Fund, and Prior Action 7 in IDPL4: Guarantee Fund established, including staffing of senior management and draft operating procedures.

<sup>xviii</sup> Government guarantees provide insurance to cover investment risks, such as delays or failure to secure licenses, changes in regulations or laws, and offtake or payment obligations for state-owned enterprises. These government guarantees transfer private investment risks to public risks. A transfer of private liabilities to public liabilities is a subsidy.

<sup>xix</sup> Three additional coal power plants are still under consideration for IIGF guarantees, including South Sumatera 9 – Mine Mouth Coal Fired Power Plant (2 X 600 MW), and South Sumatera 10 – Mine Mouth Coal Fired Power Plant (600 MW) and the Jambi Mine Mouth Coal Plant (2 x 400 MW).

<sup>xx</sup> *Indicative Triggers for IDPL 2: 1. Adoption of an action plan by the Land Working Group to accelerate land acquisition processes and ensure fair compensation and rehabilitation measures to project affected persons. 2. Adoption of Ministry of Public Works decree, in agreement with Ministry of Finance, on allocation of land acquisition and compensation costs as project costs in budget allocation for each Ministry of Public Works/Directorate-General of Highways national roads project.*

*Indicative Trigger for IDPL 3: Implementation of Land Working Group's action plan.*

<sup>xxi</sup> Law No. 2/201 on Land Acquisition: Price of land is determined through independent appraisal. Land owner may choose to reject through court, yet court has to decide in 30 days (final). After transaction process (normal) or by court verdict, project can commence. Re-settlement is also an option. As explained in the *Jakarta Post* <http://www.thejakartapost.com/news/2015/03/26/analysis-infrastructure-execution-key.html#sthash.tDk859ud.dpuf>

<sup>xxii</sup> See: [http://www.gbgindonesia.com/en/property/article/2016/indonesia\\_s\\_land\\_acquisition\\_laws\\_on\\_paper\\_only\\_11365.php](http://www.gbgindonesia.com/en/property/article/2016/indonesia_s_land_acquisition_laws_on_paper_only_11365.php)

<sup>xxiii</sup> The International Finance Corporation or IFC is the World Bank Group's private sector arm.

<sup>xxiv</sup> US\$29.60 million loan for the Indonesia Infrastructure Guarantee Fund (IIGF project ID# P118916). World Bank Appraisal document for the IIGF project (paragraph 22): ... "the current project is linked to other WB operations through Prior Action 6 in IDPL3: Issuance of Government Regulation establishing the Guarantee Fund, and Prior Action 7 in IDPL4: Guarantee Fund established, including staffing of senior management and draft operating procedures, [i.e., the Operations Manual]."

<sup>xxv</sup> Police arrest 43 peaceful coal power plant protesters in front of State Palace, Oct. 6,

2015, <http://jakarta.coconuts.co/2015/10/06/police-arrest-43-peaceful-coal-power-plant-protesters-front-state-palace>; Jakarta Globe: Residents Continue Fight Against Batang Power Plant, [http://jakartaglobe.beritasatu.com/news/residents-continue-fight-batang-power-plant\\_3/30/15](http://jakartaglobe.beritasatu.com/news/residents-continue-fight-batang-power-plant_3/30/15); People living in Batang protest against PLTU in Indonesia, 7/22/13. [http://news.xinhuanet.com/english/photo/2013-07/22/c\\_132563353.htm](http://news.xinhuanet.com/english/photo/2013-07/22/c_132563353.htm); The True Cost of Coal Abuses: Health impacts and Risks Associated with Indonesia's Batang Coal Fired Power Plant Project, Greenpeace Briefing Paper, March 2014.

<sup>xxvi</sup> *The Jakarta Post*, 2016. Supreme Court ruling paves way for Batang megaproject. March 2, 2016. Available at:

<http://www.thejakartapost.com/news/2016/03/02/supreme-court-ruling-paves-way-batang-megaproject.html>

<sup>xxvii</sup> *Ibid.*

<sup>xxviii</sup> <http://endcoal.org/2015/08/in-japan-indonesian-villagers-file-official-complaints-on-batang-coal-plant/>

<sup>xxix</sup> *Ibid.*

<sup>xxx</sup> *IJ Global*, PLN to start acquiring land for Central Java. March 19, 2015.

<sup>xxxi</sup> <http://priceofoil.org/content/uploads/2013/11/Civil-Society-Letter-to-WB-Pres-Kim-Indonesia-Coal-Oct-2-2013.pdf>

<sup>xxxii</sup> <http://endcoal.org/2015/08/in-japan-indonesian-villagers-file-official-complaints-on-batang-coal-plant/>

<sup>xxxiii</sup> The complete title of the World Bank's Energy DPL is "First Indonesia Sustainable and Inclusive Energy Development Policy Loan".

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<sup>xxxiv</sup> Pillar B Investment Climate: Indicative Trigger #3 – “The Borrower adopts revised fiscal terms for production sharing contracts to increase investment into the upstream/midstream including incentives for developing marginal fields, and unconventional resources.”

<sup>xxxv</sup> Pillar B Investment Climate: Indicative Trigger #4 “The Borrower introduces regulatory measures in the gas mid-stream that would encourage mid-stream entities to accelerate investment in critical gas processing, transportation and storage facilities.”

<sup>xxxvi</sup> World Bank, 2015. First Indonesia Sustainable and Inclusive Energy Development Policy Loan: Program Document. World Bank, November 3, 2015.

<sup>xxxvii</sup> By the end of 2024, PLN projects that 60 percent of the 70.4 GW of planned new generation capacity will be coal-fired generation, 20 percent gas-fired and 20 percent from renewables (mainly geothermal power and hydropower). As of 2014, coal’s share in installed generation capacity was already at 47.5 percent, oil 12.3 percent, gas 29.2 percent, and renewables 11 percent (6.5 percent hydro and 4.4 percent geothermal). See the First Indonesia Sustainable and Inclusive Energy Development Policy Loan, World Bank Program Document, November 3, 2015. Note: figures exclude captive power generation, which is dominated by diesel and coal.

<sup>xxxviii</sup> The reforms also included a significant reduction in export tariffs for palm oil, but the GOI went back and forth on the level of export tariffs.

<sup>xxxix</sup> <http://www.greenpeace.org/international/en/publications/Campaign-reports/Forests-Reports/Certifying-Destruction/> For information on forest fires and oil palm plantations see: <http://www.theguardian.com/environment/2015/nov/06/illegally-planted-palm-oil-already-growing-on-burnt-land-in-indonesia>

<sup>xl</sup> The Energy DPL’s results indicator is “PLN enters into new long-term agreements for domestic and/or inter-island gas supply of a minimum of 125 million cubic feet per day by end-2016, as measured by the daily gas volume to be supplied under new contracts or contract extensions signed after December 2015 of 5-years or greater duration. Measurement against this indicator would not only show reform progress but would have important demonstration value for future gas procurements, both by PLN and IPPs.”

<sup>xli</sup> Metz, Bert (Dr.), et al, 2013. New unabated coal is not compatible with keeping global warming below 2°C. Coal and 2 degrees C statement. European Climate Foundation, The Netherlands. October 2013.

<sup>xlii</sup> Regarding the assessment of climate risks of DPLs, the current policy OP8.60 only suggests a non-binding “toolkit” to be used at the task team’s discretion.