



SMOG AND MIRRORS

How “Sustainable” Finance from the Asian Development Bank is Fueling Indonesia’s Coal Expansion



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Inclusive Development International works to advance social, economic, and environmental justice by supporting communities around the world to defend their human rights and environment in the face of harmful corporate activities. Learn more at:

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The Suralaya Power Station is the dirtiest industrial complex in Southeast Asia.

The Asian Development Bank has pledged to become a leader in climate finance. In 2021, it provided a \$600 million loan to the Indonesian government ostensibly to promote renewable energy and electricity access in rural areas. Yet an analysis of the loan contract reveals that the money can be used to build new coal power plants, in apparent violation of bank policy.

On a recent humid morning, Mad Haer Effendi, an Indonesian environmental campaigner, stood on a grassy hill on the western coast of Java Island. He looked out over the Sunda Strait, the busy waterway that separates Java from the island of Sumatra, and watched gray haze drift inland, gradually dimming the sun. The darkening sky suggested an approaching storm, but it was the dry season here. “That’s not rain, that’s coal ash,” Mad said. “The coal plants are running at higher capacity this morning.”

In the distance, six chimneys soared above the strait, spewing tendrils of exhaust that floated over clusters of houses nestled into the surrounding rainforest.

The smokestacks are part of the hulking Suralaya Power Station, Southeast Asia’s **largest** coal plant. The 4,025-megawatt facility supplies electricity to local heavy industry and Jakarta, a two-hour drive away.

Java is the epicenter of Indonesia’s coal-fired power industry, and Suralaya is perhaps its most notorious coal station. It is the **dirtiest** industrial complex in Southeast Asia, according to an independent analysis of satellite data. Pollution from the facility and other nearby coal plants **kills** an estimated 2,500 Indonesians per year and causes numerous health problems, including respiratory disease and cancer.



Mad Haer Effendi heads the environmental advocacy organization PENA Masyarakat.

Those problems are about to get substantially worse. In 2021, construction began on a 2,000-megawatt expansion of the complex known as Java 9 & 10. The expansion will [cause](#) between 2,400 and 7,300 premature deaths over an expected 30-year lifespan, according to modeling by Greenpeace.

Shockingly, the expansion has received backing from a hidden and unlikely source: The Asian Development Bank, the regional anti-poverty lender that has [pledged](#) to become a leader in the fight against climate change. Despite these promises, Inclusive Development International has found that the bank recently loaned \$600 million to support the Indonesian government's electricity development plan, which includes dozens of planned coal plants in the country, including Java 9 & 10, and other fossil fuel projects. But because that loan is cloaked in the language of environmental sustainability, it has escaped public scrutiny until now. [Inclusive Development International](#) uncovered the loan as part of an [investigation](#) into development finance support for coal in Asia.

The loan, signed in December 2021, comes at a crucial juncture for the Asian Development Bank, which is trying to pivot from financing fossil fuels to climate-friendly investments. In May 2023, at the lender's annual general meeting, bank President Masatsugu Asakawa [announced](#) \$100 billion in

climate-friendly financing. The money will fund renewable energy projects and the early retirement of coal plants, among other things. Asakawa also reaffirmed a bank commitment to stop financing new coal projects. "The global battle against climate change will be won or lost in Asia and the Pacific," he said.

A key front in that battle is Indonesia, the world's sixth-largest⁹ coal power operator. While the Indonesian government plans to expand renewable energy, it is also [building](#) up to 18.8 gigawatts of new coal power capacity, [third](#) only to China and India, deeply worrying climate experts.

By backing the Indonesian government's coal expansion plans, the Asian Development Bank appears to be violating a no-new-coal commitment in its updated [Energy Policy](#) from October 2021, released two months before it signed the loan. The loan also seriously undermines the bank's renewable energy agenda and continues a pattern of support for fossil fuels in the region. That includes the Suralaya Power Station, which the Asian Development Bank financed in the [1980s](#) and [1990s](#), along with providing [assistance](#) for its developer.

"The Asian Development Bank is repeating the same mistakes they've been making for years here," Mad Haer Effendi, head of the Java-based environmental advocacy organization PENA Masyarakat.

Figure 2: Page 3 of the loan agreement defines “PLN’s Program” as PLN’s Electricity Power Supply Business Plan 2021-2030, meaning PLN can use the ADB loan proceeds to fund activities within the 10-year business plan.

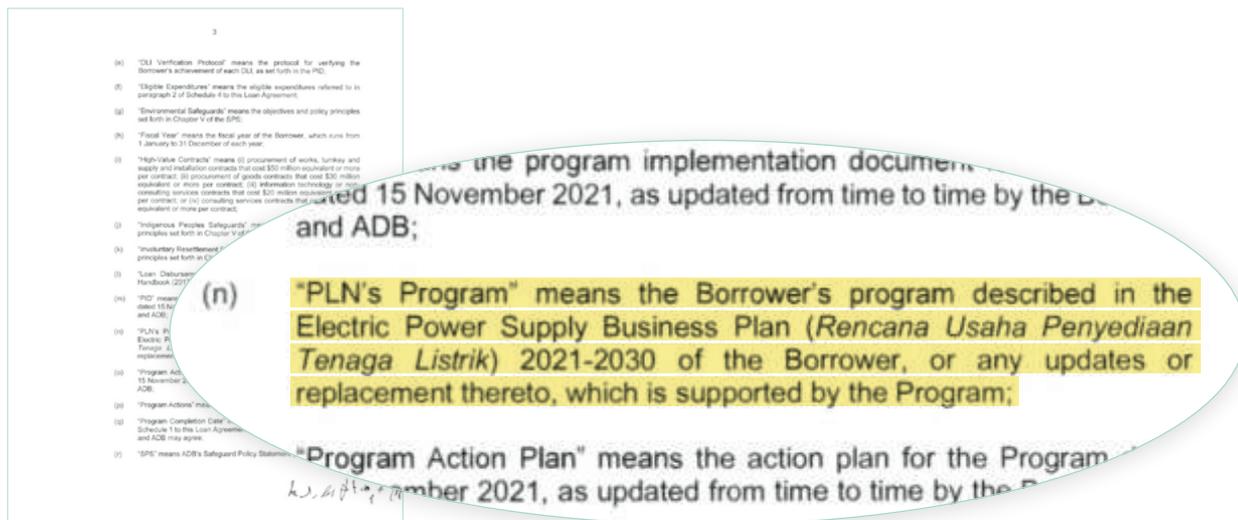


Figure 3: PLN’s Electricity Power Supply Business Plan 2021-2030 includes development plans for the Java 9 & 10 expansion, on Page B-21.

Table B2.9: Suboptimal Rencana Pengembangan Pembangkit

Tahun	2021	2022	2023	2024	2025	2026	2027	2028	2029	2030	Jumlah
PLS											
PLTU	255,0	-	-	-	-	-	-	-	-	-	255,0
PLT Sains	-	-	25,0	190,0	180,0	-	-	-	-	-	495,0
Jumlah	255,0	-	25,0	190,0	180,0	-	-	-	-	-	930,0
IPP	-	-	-	-	1.000,0	1.000,0	-	-	-	-	2.000,0
PLTU	-	-	-	-	80,0	-	-	-	-	-	80,0
PLTSM	-	4,2	26,0	3,0	-	-	-	-	-	-	33,2
PLT Sains	-	-	1,0	50,0	190,0	20,0	-	-	-	-	461,0
Jumlah	-	4,2	27,0	53,0	1.270,0	1.020,0	-	-	-	-	2.310,2
Total											
PLTU	255,0	-	-	-	1.000,0	1.000,0	-	-	-	-	2.255,0
PLTSM	-	4,2	26,0	3,0	-	-	-	-	-	-	33,2
PLT Sains	-	-	1,0	50,0	190,0	20,0	-	-	-	-	461,0
Jumlah	255,0	4,2	27,0	53,0	1.290,0	1.020,0	-	-	-	-	2.635,2

Table B2.10: Rencana Pengembangan Pembangkit

No.	Nama Rencana Pengembangan	Spesifikasi	Letak/Plano Pembangkit	PLT	Estimasi Biaya	Tahun	Status
15	Jawa Bali	PLTsa	Jawa-Bali (Kuota) Tersebar	PLTsa	40,0	2025	Rencana
16	Jawa Bali	PLTU	Jawa-9	PLTU	1000,0	2025	Konstruksi
17	Jawa Bali	PLTS	Jawa-Bali (Kuota) Tersebar	PLTS	20,0	2026	Rencana
18	Jawa Bali	PLTU	Jawa-10	PLTU	1000,0	2026	Konstruksi

The Asian Development Bank denies that the loan can be used to fund coal plants. In an email to Inclusive Development International, a bank spokesperson wrote: “The Sustainable and Reliable Energy Access Program seeks to enhance access to sustainable and reliable energy for people in Western and Central Java. Eligible expenditures under the Loan Agreement (4164-INO) between ADB and PT. Perusahaan Listrik Negara (PLN) are restricted to achieving the stated Program results of (i) power grid rehabilitation, strengthening, and expansion; (ii) clean energy use promotion; and (iii) institutional capacity

strengthening (see Loan Agreement, Schedule 1). We would like to emphasize that eligible expenditures under the Loan Agreement do not include coal-fired power plants.”

The spokesperson did not elaborate on the apparent discrepancy between how eligible expenditures are defined in the loan agreement and the bank’s divergent interpretation of these expenditures.

PLN did not respond to detailed questions about the loan sent by email and letter.

Pollution is inescapable in Banten Province, where residents suffer from health problems such as respiratory disease and cancer.





Local residents live and play in the shadows of Suralaya's smokestacks.

Living with coal

Any new coal plant built in Indonesia is likely to operate for 40 years. By backing PLN's coal development plans, the Asian Development Bank is helping to lock Indonesia—a country that is critical to the fight against global climate change—into a future at least partly dependent on the dirtiest of fossil fuels. The consequences of this decision, which will make it difficult for Indonesia to meet its Paris Agreement emissions targets, are global.

But they will be felt most acutely by the people of western Java, who live daily with the pollution spewed by the Suralaya Power Station and the heavy industry—petrochemical refineries, steel plants and plastics factories—it powers.

A climate of fear, stoked by industry and government intimidation, has pushed locals into a weary resignation about the Java 9 & 10 expansion. “Coal and heavy industry have been here so long that people have surrendered to it. There's just so much of it—it's everywhere you look. People think, what's the point of trying to fight it?” Mad said.

Yet despite these obstacles, some have resisted in the [courts](#), with protests, and in campaigns targeting other [financiers](#) of Java 9 & 10, in a bid to stop its development—or at least bring it into environmental compliance.

Sutrisno, 26, is in many ways a child of the area's coal boom. He was born in the shadow of the Suralaya Power Station in the late 1990s, just after a major expansion increased the plant's capacity by 1,800 megawatts. The Asian Development Bank and the World Bank were among the [financiers](#) of this phase. (Sutrisno is a pseudonym to protect him from government and industry threats.)

By the time he was a teenager, there were more than 1,600 industrial and manufacturing companies operating in the province, drawn to the area by easy access to coal-powered electricity. Hundreds of these companies have serious pollution management [problems](#), including hazardous chemical leaks and poor waste disposal practices. The Indonesian Waste Management Association has called the situation a pollution emergency.

Like many people from the area, Sutrisno didn't realize that the pollution was unusual, because that's all he knew. In addition, family members worked at the Suralaya Power Station, and he lived in housing built for employees. His upbringing was intertwined with coal, and he accepted it as a fact of life—even on the days when smog filled his lungs, or a film of ash coated everything around him.

But that changed when Sutrisno left home for university in another province, where he met environmental activists who questioned Indonesia's reliance on coal. They had long discussions about how coal was harming the country. "This opened my eyes to what was happening back home," he said.

When he graduated, he returned to Banten Province and got married. He began to notice how coal was intruding on his life. He tried farming, but that proved difficult because of pollution. The employee housing complex he grew up in was razed to make way for the Java 9 & 10 expansion, with little warning for his family members and other residents—and insufficient compensation for them to continue living in the area. And he has begun to see how others in the community are suffering, too.

"I decided to start speaking out. I didn't want to remain silent anymore," he said.

But speaking out would be risky. He worried that he might alienate family members whose jobs depend on coal. Or worse, put them—and himself—at risk.

Residents tell stories of thugs who threaten people who speak out about pollution, or special military and police units that come into communities to ask questions designed to intimidate opponents of coal. This has created a climate of fear.

"I worry sometimes," Sutrisno said. But his deep care for his community has given him the strength to speak out. "This has allowed me to raise my voice for people who are more impacted by coal than me," he said.

This includes people like Mulyadi, a fisherman who used to earn his living fishing the waters near the Suralaya Power Station. In the 1980s, before the first big expansion of the plant, there were more than 200 fishing families in the area, Mulyadi estimates. Fish were so plentiful that most families didn't need boats and could make a good living by simply casting out nets from shore. (Mulyadi is a pseudonym to protect him from government and industry threats.)



Pollution from the coal plants makes farming in the area difficult.



Everything in Banten Province seems to be smudged with the fingerprints of the coal industry.



As the coal power plant expanded, it became more difficult to find fish near the coast.

But as the coal complex got bigger, it became more difficult to find fish near the coast because of its proximity to the power plant. Fisher people began to need boats—and expensive fuel—to make trips into deeper waters. Today, Mulyadi estimates that fewer than 100 families continue to fish, and most can't rely on it alone to support their families.

On most days, Mulyadi simply breaks even. Once or twice a month, he'll catch enough to make a profit, but it's no longer sufficient to support his family long term, even with his wife's small farm. "Sometimes we go without food for a day or two," he said.

The decline in income has come at a bad time. Two years ago, Mulyadi and his wife had a daughter, their first child. Not long after his daughter was born, she developed a chronic cough and difficulty breathing.

Growing up in western Java's coal country is perilous for children like her. Data collected in 2017 by the local municipal health office found that up to 15,000 children under five in the area suffered from Acute Respiratory Infection, which can have long-term health consequences. In addition, coal emissions have been linked with lung cancer, heart disease and stroke, according to the Banten Province Department of Energy and Minerals.



Fishing no longer provides enough income to support a family in the area.

Mulyadi and his wife took their daughter to a hospital in Jakarta, where she was diagnosed with Acute Respiratory Infection. Her condition has steadily worsened, and the family's decline in income has made it difficult to care for her.

"I try to be grateful for what I have, but we're really struggling," Mulyadi said. He doesn't trust the developers of Java 9 & 10 to act responsibly, because they have long disregarded what local people want.

"At this point, we have to be realistic. It's too late to stop industrial development here," he said. "I just hope we can find a better balance between community and industry."

Fisher people now need to make trips into deeper waters to find fish, which requires boats and expensive fuel.





The byproducts of coal-powered industrial activity accumulate in massive dumps throughout Banten Province.

“Clean energy is not enough”

Few places require a rebalancing between people and industry more than Banten Province. Everything here seems to be smudged with the fingerprints of the coal industry, from the province’s offshore waters, which carry barges gorged with coal that have [caught fire](#) or spilled their loads into the sea; to the shoreline, where the coal power stations, carved out of the coastal rainforest, generate electricity and plumes of smog; to the province’s largest city, Cilegon, where refineries and factories, powered by coal, churn out their products and pollution.

The detritus of this coal-fueled industrial activity never leaves the area. Instead, it collects in dumps scattered throughout the province. At these sites, coal ash and other industrial byproducts are piled into stories-high mounds of waste that are left out in the open air, many of them smoldering menacingly. Many of the sites are located in populated areas near homes and small businesses.

As a past and current backer of the Suralaya complex, the Asian Development Bank bears some responsibility for the state of things here. Yet green financing alone won’t alter the coal-powered industrial dystopia that the people of Banten Province live with every day.

The bank actually has mechanisms to make things better. Two programs, the bank’s own [Energy Transition Mechanism](#) and the [Just Energy Transition Partnership](#), a larger pool of donor money that the bank coordinates, can be used to phase out existing coal plants. In December 2023, the bank [announced](#) the early closure of the Energy Transition Mechanism’s first plant, the Cirebon-1 project.

Andri Prasetyo, a researcher at the climate advocacy organization Senik Centre Asia, said that some of the older units in the Suralaya complex should be on the list for early closure, given the bank’s role in financing its early stages. “The Asian Development Bank helped create this mess, so they have a greater responsibility to proactively mobilize resources to help fix it,” Prasetyo said.



The Java 9 & 10 plants currently under construction will expose a new generation to the impacts of coal pollution.

But while early closure of older units would provide some relief, it won't fix the problem of the Java 9 & 10 expansion, which is under construction. If the project comes online as scheduled in 2025, it is likely to operate until 2055, adding 30 years of carbon dioxide to the atmosphere and exposing an entire generation of children to respiratory and other health problems.

Several local people, who say their communities have never been meaningfully consulted about the expansion, filed a formal [complaint](#) against another development finance institution, the World Bank Group's International Finance Corporation, which

indirectly backed the project. The complaint to the International Finance Corporation's internal watchdog, the Compliance Advisor Ombudsman, alleges that this indirect financing violated the institution's social and environmental guidelines.

The complainants are calling for Java 9 & 10 to be canceled or phased out early, due to its devastating impacts—and the fact that it is unnecessary, given the [glut of electricity](#) on the local grid. Short of that, the complainants are calling for the project to be brought into compliance with international standards.

A complaint against the International Finance Corporation

In September 2023, several residents of western Java filed a [complaint](#) to the International Finance Institution (IFC)'s accountability mechanism, the Compliance Advisor Ombudsman. The complaint alleges that the IFC violated its social and environmental guidelines when one of its clients, PT Hana Bank Indonesia, joined a \$2.6 billion syndicated project loan to fund Java 9 & 10.

The IFC holds shares in Hana Bank Indonesia, which is notable for being one of the IFC's first so-called Green Equity clients. In 2020, the IFC [launched](#) the Green Equity Approach, which is designed to reduce the World Bank Group member's exposure to coal through its investments in commercial banks. Green Equity clients commit to reducing their financing of coal over time. However, in the wake of Hana Bank Indonesia's financing of Java 9 & 10, and the outrage that created, Green Equity clients must now commit to zero financing of coal from the time of the IFC's investment.

The Java residents, whose identities remain confidential for their own safety, filed the complaint alongside PENA Masyarakat and Trend Asia, with support from Inclusive Development International and Recourse. The complaint was found [eligible](#) by the International Finance Corporation's internal watchdog, the Compliance Advisor Ombudsman, which is conducting an [appraisal](#) to determine whether a full compliance investigation is warranted.

Although the Asian Development Bank is not subject to the complaint, it has substantial influence to push for these demands to be met. The bank's client, PLN, owns 51% of Java 9 & 10 and is the sole buyer of its electricity. This gives its benefactor, the Asian Development Bank, enormous influence over not just Java 9 & 10 but the 13.8 gigawatts of coal capacity in the utility's business plan. The bank's influence over PLN will only grow as it funnels billions of dollars of "green" investments into Indonesia.

These investments risk being seriously undermined—or effectively canceled out—by the Asian Development Bank's continued support for coal, said the environmental campaigner Mad. "The bank can't claim to be helping Indonesia when their investments are destroying the environment," he said.

For Sutrisno, the university graduate who returned home to Banten Province, the choice for the Asian Development Bank is clear. "What do I think should happen? I want all of the coal power plants to be closed down. I want a more democratic development model, less industry, more nature," he said. "Clean energy alone is not enough."



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