Dear JICA Bond Underwriters and Bondholders,

A Request to Engage with the Japan International Cooperation Agency (JICA) to Stop Supporting Coal Projects in Bangladesh and Indonesia

We, the undersigned 29 organizations from 12 countries would like to ask you to engage with the Japan International Cooperation Agency (hereinafter referred to as JICA), which is the executing agency for Japan’s Official Development Assistance, to urge them to rule out support for the Matarbari coal-fired power plant Phase 2 project (600 MW x 2 units) (hereinafter referred to as Matarbari 2) in Bangladesh and the Indramayu coal-fired power project (1,000 MW x 1 unit) (hereinafter referred to as Indramayu) in Indonesia. We are sending this request to 39 financial institutions (see attachment) that have been underwriting and holding JICA bonds in recent years.

JICA is expected to support Matarbari 2 in Bangladesh and Indramayu in Indonesia. JICA has already provided loans for the Matarbari coal-fired power plant Phase 1 project (hereinafter referred to as Matarbari 1) and a preparatory survey for the construction of Matarbari 2 is currently underway. In Indramayu, JICA continues to provide loans for the basic design and is expected to do the same for the main construction.

However, the following problems have been pointed out regarding both the Matarbari and Indramayu coal projects.

1. New coal-fired power generation is inconsistent with the goals of the Paris Agreement and the SDGs

The Paris Agreement, an international framework for climate change countermeasures, aims to keep the global average temperature increase well below 2 degrees Celsius above pre-industrial levels while pursuing efforts to limit the increase to 1.5 degrees Celsius. It also aims to adjust the flow of funds to a pathway towards a low emission and climate-resilient development. According to Climate Analytics, a European research institute, in order to achieve the 1.5 degree limit of the Paris Agreement, developed countries need to completely stop the operation of coal-fired power plants by 2030 and developing countries by 2040 (※1). In February 2021, UN Secretary-General Antonio Guterres called on all countries to follow this timeline (※2).

The Sustainable Development Goals (hereinafter referred to as SDGs) has 17 international goals that were adopted to achieve a sustainable world, and Goal 13 requires that we “take urgent action to combat climate change and its impacts.” Since both the Matarbari and Indramayu projects will construct new coal-fired power plants, it is clear that they are inconsistent with the goals of the Paris Agreement and Goal 13 of the SDGs.
2. Worsening overcapacity in the host countries

It has been pointed out that both countries are already facing an overcapacity of power, raising questions about the rationale for building new large-scale power plants. There are also concerns that the construction of large-scale power plants, such as Matarbari and Indramayu, would increase the financial burden on both countries.

According to the “Revisiting Power System Master Plan (PSMP) 2016 (published in November 2018)” (※3) by the Bangladesh Ministry of Power, Energy and Mineral Resources, the actual reserve margin is anticipated to reach a maximum of 69% in 2026, and the actual reserve margin is projected to consistently exceed the target reserve margin until 2041. According to a report released in January 2021 (※4) by the U.S.-based think tank, Institute for Energy Economics and Financial Analysis (IEEFA), Bangladesh’s overall power capacity utilisation in the fiscal year 2019-2020 fell from 43% in the previous year to 40%, revealing the country’s worsening overcapacity. IEEFA estimated that the capacity utilisation will fall below 40% over the next five years unless power generation growth is maintained at or above 10% per annum, and said that the construction of a new power plant will have significant impacts on the financial burden and cost of power generation of the Bangladesh Power Development Board.

It has been pointed out that the new power plant in Indramayu is unnecessary from the viewpoint of energy security because the Java-Bali electrical grid has an excessive power supply. In the Indonesian government’s plan, or the Electricity Supply Business Plan (RUPTL) (2019-2028) (※5), the transition range of reserve margin in the Java-Bali grid is anticipated at 30~45% until 2028. The oversupply of electricity in the Java-Bali grid was revealed in the letters (dated September 18, 2020) sent by the Ministry of State Owned Enterprises (BUMN) to the Ministry of Energy and Mineral Resources (ESDM) and the Indonesia Investment Promotion Centre (BKPM) (※6). If this project is pushed forward, it will put an additional burden on Indonesia’s state-owned electricity company (PLN), whose financial problems have already been pointed out (※7). This burden can easily be transferred to Indonesian consumers or taxpayers, including future generations, to save the financial difficulties of the state-owned company.

3. A lack of economic justification due to the ever-falling costs of renewable energy

An analysis conducted in March 2020 by the London-based think tank, Carbon Tracker, (※8) pointed out that the cost of new power projects that rely on renewable energy is cheaper than building new coal power projects in many Asian countries and regions, including Bangladesh and Indonesia, meaning there is no reasonable economic justification that can be made for building new coal-fired power plants. In addition, one of the four conditions for government assistance for coal-fired power generation in Japan’s Strategic Energy Plan (Cabinet decision on July 2018) is that support should only be provided for “countries that have no choice but to select coal as a key source of energy from the viewpoints of energy security and economic
efficiency.” Therefore, JICA’s support for Matarbari 2 and Indramayu would go against this condition stipulated by the Japanese Government.

4. Serious environmental and social impacts in the local area

In Bangladesh, due to the construction of Matarbari 1 (supported by JICA), more than 40 households were forced to relocate, many residents who made a living from salt and shrimp farms have become unemployed, and life has become more difficult for families who are experiencing delays in compensation payments as well as delays in providing alternative housing. Other problems include the worsening of floods due to the destruction of water channels and water gates, damage on community roads, an increase in traffic accidents, and an inflow and accumulation of sediment in surrounding rivers. Residents have repeatedly asked the executing agency and JICA to solve these issues, but there has been very slow improvement. In addition, the construction of an access road has caused a river to fill up due to the dumping of dredged soil, leading to further loss of livelihoods for local fishermen who rely on the river, which is an impact that was not estimated in the environmental impact assessment report (※9).

In Indonesia, residents have strongly opposed the Indramayu project for more than five years, fearing that many farmers will lose their livelihoods due to the expropriation of farmland to make way for the power plant, and the worsening of air pollution. However, several farmers who voiced such opposition experienced human rights violations as they were unlawfully arrested for fabricated crimes and were imprisoned for five to six months. This shows that basic human rights such as freedom of expression are seriously violated in the project area. Moreover, many residents such as fishermen and farmers could not participate in a public consultation on the environmental assessment of the project, which should be conducted with the participation of the residents who are affected by the construction, due to the lack of publicly accessible and timely information.

Both projects do not comply with JICA’s “Guidelines for Environmental and Social Considerations” and SDG Goal 16 (i.e. to promote peaceful and inclusive societies for sustainable development, provide access to justice for all and build effective, accountable and inclusive institutions at all levels).

JICA bonds are issued to contribute to the achievement of the SDGs, being one of the Japanese Government’s concrete measures to achieve the SDGs in the “SDGs Implementation Guiding Principles Revised Edition” (revised in December 2019). However, the above-mentioned environmental and social impacts go against SDG Goal 13 and 16. Accordingly, it is extremely problematic that JICA is trying to support both the Matarbari 2 and Indramayu coal projects.
Therefore, we would like to request you as JICA bondholders to do the following:

- Urge JICA to not support the Matarbari coal-fired power plant Phase 2 project in Bangladesh and the Indramayu coal-fired power project in Indonesia.
- Urge JICA to solve existing problems due to the construction of the Matarbari coal-fired power plant Phase 1 project in Bangladesh and the Indramayu coal-fired power project in Indonesia, and to comply with JICA's “Guidelines for Environmental and Social Considerations.”
- If JICA does not properly address the two points mentioned above, we urge you to divest from JICA bonds.

We would appreciate it if you could send us your institution’s policies and opinions regarding this request to the contact person below by April 23, 2021.

Thank you for your consideration and we look forward to receiving your response.

Footnotes:
※1 : https://climateanalytics.org/briefings/coal-phase-out/
※4 : https://ieefa.org/ieefa-bangladeshs-power-system-overcapacity-problem-is-getting-worse/
※6 : https://money.kompas.com/read/2020/10/02/074542126/terlalu-banyak-pembangkit-listrik-pln-oversupply
※8 : https://carbontracker.org/reports/how-to-waste-over-half-a-trillion-dollars/
※9 : https://www.thedailystar.net/frontpage/news/the-killing-kohelia-2033253

Contact:
Yuki Tanabe, Japan Center for a Sustainable Environment and Society (JACSES)
Email: tanabe@jacses.org
All signatories
350.org Japan, Japan
Asian Energy Network (AEN), Philippines
Bangladesh Poribesh Andolon (BAPA), Bangladesh
Bangladesh Working Group on External Debt (BWGED), Bangladesh
BankTrack, Netherlands
Coastal Livelihood and Environmental Action Network (CLEAN), Bangladesh
Conservation Action Trust, India
Earthjustice, United States
Facing Finance, Germany
Fair Finance International, Netherlands
Friends of the Earth Japan, Japan
Friends of the Earth United States, United States
Japan Center for a Sustainable Environment and Society (JACSES), Japan
Kiko Network, Japan
LBH Bandung, Indonesia
Life and Nature Safeguard Platform (LNSP), Bangladesh
Market Forces, Australia
Mekong Watch, Japan
Mighty Earth, United States/Japan
NGO Forum on ADB, Philippines
Oil Change International, United States
Oxfam in Cambodia, Cambodia
Pakistan Fisherfolk Forum, Pakistan
People of Asia for Climate Solutions, Philippines
Rivers without Boundaries Coalition, Russia
Sunrise Project, United States/Australia
The PRAKARSA, Indonesia
WALHI, Indonesia
WALHI West Java, Indonesia
Underwriters of the 44th (April 13, 2018) ~ 56th (August 3, 2020) JICA Bonds (Non-guaranteed Domestic Bonds)
Mitsubishi UFJ Morgan Stanley Securities Co., Ltd.
SMBC Nikko Securities Inc.
Daiwa Securities Co. Ltd.
Nomura Securities Co., Ltd.
Mizuho Securities Co., Ltd.
Shinkin Securities Co., Ltd.
Tokai Tokyo Securities Co., Ltd.
BNP Paribas Securities (Japan) Limited
Okasan Securities Co., Ltd.
SBI SECURITIES Co., Ltd.

JICA Bond-holding Financial Institutions (as of February 2021, surveyed from various public documents and financial databases)
Domestic Financial Institutions:
Government Pension Investment Fund
Tokio Marine Holdings, Inc.
Pension Fund Association for Local Government Officials
Japan Police Personnel Mutual Aid Association
Nomura Securities Co., Ltd.
Sumitomo Mitsui Financial Group, Inc.
Sumitomo Mitsui Trust Holdings, Inc.
Mizuho Financial Group, Inc.
Resona Holdings, Inc.
Meiji Yasuda Life Insurance Company
Mitsubishi UFJ Financial Group, Inc.

Overseas Financial Institutions:
Vanguard Group, Inc.
California Public Employees' Retirement System (CalPERS)
The National Pension Service of Korea
Andra AP-Fonden (AP-2)
Allianz
Danske bank
BlackRock
The Teachers Insurance and Annuity Association of America (TIAA)
Davy Group
Lazard
HSBC
State Street
GAM Holding
Charles Schwab
UBS
Oaktree Capital
Sun Life Financial
Zürcher Kantonalbank