UPDATE ON INTERNATIONAL FINANCE FOR COAL-FIRED POWER PLANTS

There are two contrasting narratives emerging on the future of coal:

- Coal is in decline due to policy, legal, regulatory and market pressures on its use because of climate change concerns augmented by the increasing competitiveness of renewables; and
- Coal is forecast to continue to play a significant role in meeting global energy needs.

This study analyses financing flows to coal-fired power plants and coal mining between 2014 and 2017 within the context of these broader discussions. The data suggests there has been a short-term fall in financing for coal-fired power plants but an increase in financing for coal mines. In the longer term, the year on year building blocks behind this finding are inconsistent, making it hard to draw conclusions on coal's long-term future.

Financing trends in the coal sector between 2014-17 are summarised in the table; the constituent parts of which are detailed in length in the full report. The main findings are outlined below.

DETAILED SOURCES OF INVESTMENT US$ MILLIONS (BARUYA, 2017, NRDC, 2018, RAN, 2018, IEA, 2016, 2017, 2018c)

Financing source	2014	2015	2016	2017	Change between 2014 and 2017
Multilateral commitments (coal-fired power plants)	250	No new direct lending for coal-fired power plants identified by the government.			
Multilateral commitments (mining)	–	–	–	–	–
PFI commitments (coal-fired power plants)	8,800	5,351	7,715	13,924	+58%
PFI commitments (mining)	–	–	24	–	NA
Financing from top 20 banks (coal-fired power plants)	18,598	27,951	29,699	28,431	+53%
Financing from top 20 banks (mining)	16,279	22,053	13,699	14,259	-12%
Other financing (coal-fired power plants)	47,352	44,698	42,586	17,645	-63%
Other financing (mining)	60,721	45,947	55,007	64,741	+7%
Total investment (coal-fired power plants)	75,000	78,000	80,000	60,000	-20%
Total investment (mining)	77,000	68,000	68,730	79,000	+3%
Total investment	152,000	146,000	148,730	139,000	-9%

Overall financing has fallen between 2014 and 2017 by approximately 9%. This decline is mainly due to the almost 20% fall in investment in coal-fired power plants. Conversely investment in mining has risen by 3%, exclusively from 'other financing'.

‘Other financing’ is a significant proportion of overall finance. It indicates the variation in estimates. ‘Other finance’ is estimated to constitute approximately 60% of total investments in the sector. It applies to about 82% of overall financing for coal mining and 29% of overall financing for coal-fired power plants. ‘Other finance’ is the residual between the sum of the bottom-up financing categories where data are available and top-down estimates of total investment in the sector made by the IEA. This residual may include lending by the smaller banks, private equity, self-financing by the companies, and equity injections from governments to state-owned enterprises. The recording and aggregating of the data by the sources may exacerbate these differences; for example, some estimates include mining developments (eg, ports and rail).

Financing from the top 20 banks increased between 2014 and 2017, but. year-to-year changes have been erratic, particularly for coal mining.

The key findings are:

- Almost 63% of total financing comes from the largest Asian Banks.
- Lending from the top Western Banks for coal-fired power plants increased by 32% but less was allocated to coal mining.
- Lending from the top Asian Banks rose slightly between 2014-17 but peaked in 2015.

Funding of coal investments through Public financial institutions (PFIs) has increased and is likely to continue. PFIs, including export credit agencies, increased their lending between 2014 and 2017. China, Japan and South Korea are the main financers behind this expansion. The largest beneficiaries are Indonesia, Vietnam and Bangladesh. South Africa and Morocco have also benefited. PFI financing is considered enabling as it supports commercial banks and original equipment manufacturers to reduce their risk exposure and therefore to leverage additional financing for coal sector investments.

Funding from multilateral banks is now negligible, but there is renewed interest in lending to coal projects. Direct financing from multilateral banks is currently negligible, however some of their policies are ambiguous. The African Development Bank is a notable exception and has taken a more facilitative stance on coal sector investments. Newer multilaterals, such as the Asian Infrastructure Investment Bank and the Islamic Development Bank, with different shareholders may have a greater appetite to finance coal projects. They could fill gaps resulting from the retreat of traditional multilateral banks.

Are the observed changes in investment patterns cyclical or structural? Investment in the coal sector is driven by supply-side and demand-side factors. Constraints on the availability of finance for such investments will be just one of the drivers for change. A key question is whether the apparent changes in financing are structural (eg, commercial drivers affecting relative costs of coal and other energy sources such as renewable energy), or cyclical (eg, slowing down of China’s economy), regulatory or policy (such as carbon taxes or incentives for renewable energy) or voluntary and corporate social responsibility concerns (banks cognisant of public concern over investment in coal and wary of losing investment funds). This report is not intended to answer this question but, instead, is intended to help provide data on investment trends that may help answer this and related questions. The span of data used herein is short and the uncertainties over some of the data are significant and therefore no long-term trends can be clearly identified. Long-term tracking of investment flows will be required to properly identify trends and more in-depth analysis is needed to help understand uncertainties in the data.

Each executive summary is based on a detailed study which is available separately from www.iea-coal.org. This is a summary of the report: Update on international finance for coal-fired power plants by Muhammad Uddin, Dr Paul Zakkour and Paul Lewington, CCC/298, ISBN 978-92-9029-621-87, 72 pp, October 2019.