

Ex-ante Evaluation

1. Name of the Project

Country: The Republic of Indonesia

Project: Infrastructure Reform Sector Development Program (II)

Loan Agreement: March 24, 2009

Loan Amount: 9,293 million Yen

Borrower: The Republic of Indonesia

2. Background and Necessity of the Project**(1) Current State and Issues of the Development in Indonesia**

In Indonesia, the ratio of infrastructure investment to GDP reached 6-7% in the mid-1990s. However, it dropped drastically in the wake of the 1997 Asian currency crisis, and now remains at 2-3%. This has caused quantitative and qualitative deficiencies of infrastructure, negatively affecting the investment climate and the investors' sentiment. Inadequate infrastructure relating to electrification and water supply system has a serious impact on people, especially on the poor.

(2) Development Policies of the Government of Indonesia and the Priority of the Project

In their mid-term national development policy (RPJM: 2004-2009), the Government of Indonesia has set the following numerical targets for 2009: a growth rate of 7.6% (5.1% in 2005); a private investment to GDP rate of 24.4% (16.0% in 2004); a government investment to GDP rate of 4.1% (3.1% in 2004); an unemployment rate of 5.1% (9.9% in 2004); and a poverty rate of 8.2% (16.6% in 2004). The amount of infrastructure investment needed to achieve these numerical targets is estimated at 65 billion dollars for the next 5 years, of which, 16 billion dollars are expected to be invested by domestic and foreign private donors. In line with this estimation, the Government of Indonesia has promoted policies for the development of infrastructure investment, as seen in their holding of infrastructure summits in January, 2005 and November, 2006, the establishment of The National Committee for the Acceleration of Infrastructure Provision (KKPPI), and the announcement of an infrastructure policy package in February, 2006.

(3) Policies and Achievements of Assistance for Development Policy Support by the Japanese Government and JICA, and Initiatives of Other Aid Organizations

Aiming at the promotion of investment from Japan and other countries through the Japan-Indonesia Strategic Investment Action Plan (SIAP) announced in June, 2005, the government worked on the improvement of the investment climate with a focus on the electricity and transportation sector and the promotion of the Public Private Partnership (PPP) and infrastructure projects. The Government of Indonesia has continued to engage in system development such as law reforms and organization establishment in various areas in a cross-sectoral manner since JICA's provision of yen loans to the Infrastructure Reform Sector Development Program (IRSDP) in March, 2007. Meanwhile, concrete PPP project

progress has been insufficient. It is necessary to continue to promote the policies of the Government of Indonesia.

In cooperation with the Asian Development Bank (ADB), this program is designed to support the Government of Indonesia's infrastructure policy and system reforms, set up a cross-sectoral framework, and to evaluate the respective sectors' achievement in reform and progress in individual projects in order to increase infrastructure investment through the continuation of reform and the promotion of Indonesia's dialogues with Japan.

This program is in line with Japan's Country Assistance Program for Indonesia, which values sustainable growth led by the private sector and which aims to support economic infrastructure reform for the improvement of the investment climate, and regarded as an economic infrastructure development support program, one of JICA's target development programs.

(4) Necessity of the Project

Considering that the strengthening of implementing agencies through subsidy and fee structure policies can enhance the effects of existing and new yen loan programs, and that improvement of the investment climate will meet the needs of Japanese corporations in Indonesia, it is highly necessary and relevant for JICA to support this program.

3. Project Description

(1) Project Objective(s)

This program supports the Government of Indonesia's infrastructure policy reforms regarding: (i) promotion of infrastructure development; (ii) investment climate improvement; and (iii) increase in access to infrastructure for the continuation of reform and enhancement of policy dialogues with the Government of Japan. Thus, this program aims to contribute to Indonesia through the promotion of infrastructure reforms, investment climate improvement, and increase in infrastructure access.

(2) Project Component(s)

In this project, the following actions will be implemented as infrastructure policy reform. (Only major actions are listed below. ⊙: actions for SIAP, ○: actions for this project alone)

Item	First loan (accomplished)	Second loan (accomplished)	Third loan (planned)
Cross-sectoral items	⊙Presidential decree on PPP ⊙Launch of interdepartmental PPP units ⊙Launch of infrastructure forum (for public-private partnership) ⊙Establishment of Risk Management Committee in Ministry of Finance	⊙Preparation for establishment of compensation fund/ infrastructure fund ⊙Establishment of project development fund (F/S) ⊙Regularization of land acquisition guidelines ⊙PPP Unit Risk Management Committee activities	⊙Regularization of PPP implementation manual ⊙Establishment of action plan for promoting land acquisition ⊙Establishment of compensation fund/ infrastructure fund ○PPP business budget (continued)

	<ul style="list-style-type: none"> ◎Presidential decree on land acquisition procedures ○Enactment of ordinance on sublease to local governments 		
Target areas (transportation, electricity, oil/ gas, communication, water supply/ hygiene)	<ul style="list-style-type: none"> ◎Establishment of a long-term development plan for transportation and electricity ◎Clarification of IPP electric power sales rules, and reform of taxation/ customs ◎Establishment/ activation of external agencies for road management/ communication regulation/ water development ○Presidential decree on energy policy ○Abolishment of fuel subsidies for industries ○Enactment of government ordinance on water (rate system, revitalization of private economy) 	<ul style="list-style-type: none"> ◎Capital area traffic congestion alleviation policy (Road improvement) ◎Enactment of the ordinance for no freight vehicle zones ◎Legal revision (railroad, sea/ sky transportation, energy, waste disposal) ◎Establishment of fund for acquisition of land for roads ◎Presidential decree on electric investment climate ◎Establishment of a long-term electricity/ energy plan ○Enactment of an ordinance on water supply/ waste disposal ○Review of public water corporation functions 	<ul style="list-style-type: none"> ◎Law revision (land transportation, electricity), enactment of government ordinance on new regulations ◎Revision of fee/ subsidy system (continued) ◎Capital area traffic congestion alleviation (continued) ○Improvement of railroad management and maintenance ○Domestic oil price adjustment (continued) ○Adjustment of debts/ review of public water corporation functions (continued) ○Promotion of water supply expansion project (continued) ○Enactment of government ordinance on sewage/ water resources
Model projects	<ul style="list-style-type: none"> ◎Selection of 10 PPP model projects (Electricity: 2, transportation: 4, water supply: 3, and communication: 1) 	<ul style="list-style-type: none"> ◎Bidding for 2 model projects ◎Preparation of standard tendering documents / FS 	<ul style="list-style-type: none"> ◎Bidding for the rest of model projects; conclusion of loan agreements for 2 model projects ◎Preparation of standard tendering documents/ FS (continued)

(3) Estimated Project Cost (Loan Amount)

Total amount of assistance from donors to this project: Approximately 580 million USD
Loan Amount within the assistance: 9,293 million Yen (equivalent to 100 million USD)
ADB fund: 280 million USD
World Bank fund (infrastructure development policy loan): 200 million USD

(4) Schedule

First loan period: January 2005 – September 2006

Second loan period: October 2006 – September 2008

Third loan period: October 2008 – September 2010

(5) Project Implementation Structure

- 1) Borrower: The Republic of Indonesia
- 2) Executing agency: National Planning Agency (BAPPENAS)
- 3) Operation and Management System: As shown in (2)

(6) Environmental and Social Consideration/ Poverty Reduction/ Social Development

1) Environmental and Social Consideration

①Category (A, B, C, or FI): C

②Reason for Categorization:

This program is categorized into Category C, due to the fact that it falls under a sector in which no particular environmental effects can be foreseen (policy support loan sector), because it has no particular impact on environment, nor is it located in an area where it can be easily affected, as identified in the JBIC Guidelines for Confirmation of Environmental and Social Considerations (established in April, 2002).

③Environmental Permit: None in particular

④Anti-Pollution Measures: None in particular

⑤Natural Environment: None in particular

⑥Social Environment: None in particular

⑦Other/Monitoring: None in particular

2) Promotion of Poverty Reduction: Through policy and system reforms, infrastructure improvement will be promoted and access to electricity, water, and hygiene systems will be increased. Thus, this program contributes to poverty reduction.

3) Promotion of Social Development (e.g. Gender Perspective, Measure for Infectious Diseases Including HIV/AIDS, Participatory Development, Consideration for the Handicapped etc.) : None in particular

(7) Collaboration with Other Donors: ADB (co-financing) and the World Bank (sharing of part of issues)

(8) Other Important Issues: None in particular

4. Targeted Outcomes

Performance indicators (Operation and Effect Indicator)

Indicator	Reference value (achievement value in 2004)	Target value (2015) <5 years after completion of the project>
Ratio of infrastructure investment to GDP (%)	3.2	6.0

5. External Factors and Risk Control

None in particular

6. Lessons Learned from Past Projects

Co-financed projects implemented in the past have shown that it is important to conduct in-depth information sharing with relevant agencies at all stages from screening to supervision. Based on this lesson, loans will be monitored in close coordination with the ADB, the co-financing institution.

7. Plan for Future Evaluation

- (1) Indicators to be used: Ratio of infrastructure investment to GDP (%)
- (2) Timing: After completion of the program