

Ex-ante Evaluation (for Japanese ODA Loan)

1. Name of the Program

Country: The Republic of Indonesia  
 Project: Development Policy Loan (VI)  
 Loan Agreement: March 19, 2010  
 Loan Amount: 8,997 million yen  
 Borrower: The Republic of Indonesia

2. Background and Necessity of the Program

(1) Current State and Issues of Development in Indonesia

President Susilo Bambang Yudhoyono, who took office in October 2004, was reelected gaining over 60% of the votes in the presidential election held in July 2009. He formed his second government in October of the same year. Since his first term in office, President Yudhoyono laid out promises to be achieved as follows: (i) stabilization of the macro economy, (ii) improvement of investment climate, (iii) improvement of fiscal administration and anti-graft measures, and (4) poverty reduction. As a result of these reforms, Indonesia recorded economic growth of 6.3% in 2007, supported by strong domestic consumption and private investment. Despite concerns regarding the global financial crisis since September 2008, Indonesia achieved economic growth of 6.1% in 2008, and it is expected to secure a growth rate above 4% in 2009 as well. In terms of the fiscal deficit, it is estimated to increase to 2.4% in 2009 as a consequence of implementing economic stimulus measures through a supplementary budget, while it was 0.2% in 2008. As for public debt outstanding, it is forecasted that it will be around 30% to GDP at the end of 2009.

In the Med-term National Development Plan (RPJM 2004-2009), the Government of Indonesia (GOI) set the targets of 5.1% for reducing the unemployment rate (9.9% in 2004), and 7.6% for economic growth rate. However, unemployment rate stands at 7.9% (as of August 2009) and economic growth rate has not reached 5% (2009 forecast). It is said that the impoverished, who live on less than 2 dollars per day, accounts for 50% of the total population, and currently about 2 million new workers enter into the labor market every year. Given these circumstances, further economic growth is needed to create employment. Moreover, the effects of the global financial crisis on the financial market became obvious, including temporary closure of the stock market, increased issuance costs for government bonds and a further weakening of the rupiah. Therefore it has become a critical issue to continue reform efforts towards improving the investment climate and fiscal administration, and reducing poverty.

(2) Development Policies in Indonesia and the Priority of the Program

Aimed at further efforts for key policy reform issues, GOI announced a policy package in May 2008 which is comprised of five priority areas: (i) improvement of investment climate, (ii) promotion of infrastructure development, (iii) stabilization of the macro economy, (iv) strengthening of small and medium-sized enterprises (SMEs), and (v) strengthening of the financial sector. The Program is aimed to support implementation of these important policy reforms.

### (3) Japan and JICA's Policy and Operations and Other Donors' Activities

The Government of Japan (GOJ) prioritizes three areas of “sustainable growth driven by the private sector”, “creation of a democratic and fair society”, and “peace and stability” in its “Country Assistance Program for Indonesia” (2004 November). Under the priority area of “sustainable growth driven by the private sector”, GOJ provides assistance in below areas: (i) ensuring fiscal sustainability, (ii) establishing economic infrastructure to improve the investment environment, (iii) revitalizing the subsidiary industries and SMEs, and (iv) creating economic systems and reforming financial sector. In the meantime, JICA defined “support for establishing/improving economic policies” as one of the development issue. Thus, this Program is consistent with the above policies.

Since 2004, JICA has also provided continual support for policy reform by GOI together with the World Bank and the Asian Development Bank (ADB) by providing Development Policy Loan over five terms (65.67 billion yen in total). These programs include policy actions such as taxation improvement, based on the dialogues with working groups of the Strategic Investment Action Plan (SIAP).

### (4) Necessity of the Program

This program contributes to sustainable development in Indonesia through support for implementing vital policy reform efforts in improving investment climate and fiscal administration, and reducing poverty. It is necessary to support the second Yudhoyono administration to promote policy reform in a steady and continuous fashion. Therefore it is highly necessary and relevant for JICA to provide assistance through this program.

<h2>3. Program Description</h2>
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<h3>(1) Program Objectives</h3>
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This program contributes to (i) Improving the investment climate, (ii) Strengthening fiscal administration, and (iii) Enhancing poverty alleviation and service delivery efforts in Indonesia, while continuing to promote policy reform and policy dialogue with the Government of Japan, by supporting the country's policy reform in association with the World Bank and ADB, based on the achievements in a series of policy reforms by the Government of Indonesia.

(2) Program Components

Reform items	Actions achieved	Actions to be taken in the following year
1. Improvement of the investment climate	<ul style="list-style-type: none"> <li>○ Reviewing the draft of new regulations on the Investment Negative List</li> <li>○ Establishment of regulation on One Stop Integrated Service (Playanan Terpadu Satu Pintu: PTSP) for business license</li> <li>○ Proposing operational model for the National Single Window (NSW)</li> <li>○ Establishment of DG Tax decree on digital signatures for individual taxpayer registration</li> <li>○ Establishment of DG Tax decree on simplifying documents for tax payment</li> <li>○ Establishment of Ministry of Finance regulation on credit guarantee corporations</li> </ul>	<ul style="list-style-type: none"> <li>○ Establishment of detailed regulations for PTSP</li> <li>○ Selecting operator for NSW</li> <li>○ Conducting survey to ease strain on taxpayers through a revision of tax payment schedule</li> <li>○ Development and utilizing e-learning modules for capacity building of the DG Tax, Ministry of Finance</li> </ul>
2. Improvement of fiscal administration	<ul style="list-style-type: none"> <li>○ Developing a program for the next National Medium Term Development Plan with measureable results and targets</li> <li>○ Daily sweep of revenue account balance into the Treasury Single Account</li> <li>○ Establishment of Ministerial regulation on managing data of Government assets</li> <li>○ Request for review of revised Regulation No. 80 of 2003 on mandating standard bidding documents</li> </ul>	<ul style="list-style-type: none"> <li>○ Implementing a program for the next National Medium Term Development Plan with measureable results and targets</li> <li>○ Establishment of Ministry of Finance regulation on cash flow forecast</li> <li>○ Launching a system database for managing Government assets</li> <li>○ Preparing an academic paper for establishment of new procurement regulation</li> </ul>
3. Poverty reduction	<ul style="list-style-type: none"> <li>○ Continue utilizing poverty group targeting in community development projects</li> </ul>	<ul style="list-style-type: none"> <li>○ Updating database targeting households</li> </ul>

(3) Total Program Cost/Estimated Loan Amount  
Loan Amount: 8,997 million yen (equivalent to 100 million dollars)

(4) Program Implementation Structure  
1) Borrower: The Republic of Indonesia  
2) Executing Agency: Coordinating Ministry of Economic Affairs and Ministry of Finance

(5) Schedule

November 2008 to August 2009. This phase of the program shall be completed when the loan is disbursed (expected in March 2010).

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

- 1) Environmental and Social Consideration
  - (i) Category: C
  - (ii) Reason for Categorization: This program is likely to have minimal adverse impact on the environment under the Japan Bank for International Cooperation Guidelines for Confirmation of Environmental and Social Considerations (April 2002).
- 2) Promotion of Poverty Reduction: The program contributes to the promotion of poverty reduction as it includes measures for promoting community-based development and stimulates public spending toward improving social services for the poor.
- 3) Promotion of Social Development (e.g. Gender Perspective, Measures for Infectious Diseases Including HIV/AIDS, Participatory Development, Considerations for the Person with Disability etc.): This program contributes to “good governance” as it includes measures for improving fiscal administration, etc.

(7) Coordination with Other Schemes, Donors, etc.

The project will be co-financed by the World Bank (750 million dollars) and the ADB (200 million dollars).

(8) Other Important Issues

This program promotes institutional improvements through collaboration with technical cooperation projects (“Technical Cooperation Project for Modernization of Tax Administration,” “Planning and Budgeting Reform for the Performance-Based Budgeting (PBB) System Implementation,” and “Maximizing State Asset Management through Strengthening Institutional Capacity”, “Investment Promotion Policy Advisor,” “Development Advisor in Trade Sector,” and “Capital Markets and Financial Sector Development Advisor,” etc.)

#### 4. Targeted Outcomes

##### Performance Indicators (Operation and Effect Indicators)

Indicator	Baseline (2008, unless otherwise stated)	Target (2010)
1) Improvement of the investment climate	<ul style="list-style-type: none"> <li>○ Investment: 25.0% of GDP (2007)</li> <li>○ Number of days to establish a business: 76 days</li> <li>○ Perception of customs users (ratio of people who respond that regulations are suitable or strict): 32% (2007)</li> <li>○ Amount of time to file complaints for tax payment: 3.4 months</li> <li>○ Ratio of bank loans provided to small and medium-sized enterprises (SMEs): 50.4%</li> </ul>	<ul style="list-style-type: none"> <li>○ Increase investment ratio through the improvement of investment-related systems</li> <li>○ Reduce the number of days to establish a business by simplifying the procedures for acquiring a business license</li> <li>○ Facilitate trade by centralizing import/export procedure services and by establishing an electronic settlement system<sup>1</sup></li> <li>○ Reduce the amount of time to file complaints for tax payment</li> <li>○ Increase the ratio of loans provided to SMEs by establishing credit guarantee corporations</li> </ul>
2) Improvement of fiscal administration	<ul style="list-style-type: none"> <li>○ Capital spending executed until second quarter: 23%</li> <li>○ Index that shows level of Indonesia's procurement system compared to international standards (Baseline Indicator (BLI)) (regulatory sector): 62.5 (2007)</li> </ul>	<ul style="list-style-type: none"> <li>○ Increase capital spending by improving the national budget system</li> <li>○ Increase the BLI</li> </ul>
3) Poverty reduction	<ul style="list-style-type: none"> <li>○ Mis-targeting of the non-poor in past poverty reduction programs (direct cash benefits): inclusion error: 8%, exclusion error: 22%<sup>2</sup> (2005, 2006)</li> </ul>	<ul style="list-style-type: none"> <li>○ Prevent leakage to the non-poor and increase the number of benefitted poor through accurate targeting</li> </ul>

#### 5. External Factors and Risk Control

None in particular

<sup>1</sup> The quantitative index is the change in the perceptions of customs users (decrease in the ratio of people responding that regulations are suitable against those responding that regulations are strict).

<sup>2</sup> "Inclusion error" refers to the percentage of non-poor who are receiving benefits from a poverty reduction program despite not being the intended recipients of the program. "Exclusion error" refers to the percentage of poor people who are not receiving benefits from the program despite being intended recipients of the program.

## 6. Lessons Learned from Past Programs

Co-financed programs implemented in the past have shown that it is important to exchange information among the parties involved throughout all stages from appraisal to monitoring. Based on this lesson, the Program will be monitored in close coordination with the World Bank and Asian Development Bank, the co-financing institutions.

## 7. Plan for Future Evaluation

### (1) Indicators to be used:

- 1) Achievements in improving the investment climate (increase in investment to GDP by improving the investment-related systems, etc.)
- 2) Achievements in improving fiscal administration (increase in executing capital spending to GDP by improving the national budget system, etc.)
- 3) Achievements in reducing poverty (prevention of leakage to the non-poor and increase of the number of benefitted poor through accurate targeting, etc.)

### (2) Timing of Next Evaluation: after the program's completion