

**1. Name of the Program**

Country: The Republic of Indonesia  
 Project: Infrastructure Reform Sector Development Program (III)  
 Loan Agreement: March 11, 2011  
 Loan amount: 8,291 million yen  
 Borrower: The Republic of Indonesia

**2. Background and Necessity of the Program****(1) Current State and Issues of the Infrastructure Sector in Indonesia**

In the mid-1990s, infrastructure investment in Indonesia reached 6-7% of GDP. It later decreased significantly after the Asian currency crisis, and now remains low around 4% of GDP. Under such circumstance, infrastructure has not improved enough to attract more overseas investment to Indonesia.

To date, the Government of Indonesia (GOI) has promoted Public Private Partnership (PPP) infrastructure project and improvement in the investment climate especially on power/transportation sector through Japan-Indonesia Strategic Investment Action Plan (SIAP) agreed in June 2005. The government also continued sectoral and cross-sectoral efforts on developing legal systems and organizations after implementing Infrastructure Reform Sector Development Program (IRSDP) (I) and (II) which were completed in March 2007 and 2009, respectively. As a result, several PPP projects proceeded with the bidding process.

**(2) Development Policies for the Infrastructure Sector in Indonesia and the Priority of the Program**

In the Mid-term Development Plan (RPJM: 2010-2014), GOI set the targets of 7% for economic growth rate (6.0% in 2010), 5-6% for unemployment rate (7.4% in 2010), and 8-10% for poverty ratio (13.3% in 2010). In order to achieve the above targets, GOI has promoted measures such as (i) Infrastructure Summit held in 2005, 2006, and 2010, (ii) infrastructure policy package announced in February 2006, and (iii) establishment of the National Committee for the Acceleration of Infrastructure Provision (KKPPI), a state-owned infrastructure investment company (PT. SMI), and infrastructure finance company (PT.IIF).

Followed by these efforts, this Program provides support in coordination with the Asian Development Bank (ADB) to (i) reform infrastructure policies/systems, (ii) evaluate formulation of cross-sectoral framework, performance of sectoral reforms, and the progress of each project, and (iii) improve infrastructure investment through continuous reform and policy dialog with Japan.

**(3) Japan and JICA's Policy and Operations in the Infrastructure Sector**

This Program is in accordance with "Country Assistance Program for Indonesia" (November 2004) formulated by the Government of Japan which aims to support development of economic infrastructure to improve investment climate. Recent projects provided by JICA are as follows:

- (i) Technical cooperation projects: Project on Capacity Building for Public Private Partnership (PPP) Operation (Phase I : 2007-2009, Phase II : 2009-2012)  
Project for PPP Network Enhancement (2010-)
- (ii) ODA Loan: IRSDP (2006, 11.8 billion yen) and IRSDP (II) (2008, 9.3 billion yen)

**(4) Other Donors' Activities**

As a co-finance partner, ADB provided loan in three terms: first in December 2006 with USD 400 million, second in December 2008 with USD 280 million, and third in December 2010 with USD 200 million. The World Bank provided a sector-specific loan, Infrastructure Development

Policy Loan (IDPL) with the amount of USD 200 million in total. It was provided in four terms: first in April 2008, second in December 2008, third in September 2009, and fourth in November 2010. In addition to the above, the Australian and Dutch governments supported Indonesia's infrastructure reform.

(5) Necessity of the Program

As described above, GOI achieved policy matrices agreed upon with ADB and JICA at IRSDP(II), and has been making progress on PPP projects. Based on such evaluation, it is highly necessary and relevant for JICA to provide assistance through this Program.

<b>3. Program Description</b>
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(1) Program Objectives

This Program aims to support GOI's infrastructure policy reform in terms of three challenges: (i) facilitating infrastructure development, (ii) improving investment climate, and (iii) improving access to infrastructure. Through these continuous reforms, policy dialogues, and investment, this program thereby contributes to the stabilization of Indonesia's economy.

(2) Program Components

In this program, the following major actions will be implemented as infrastructure policy reform. (⊙: actions for SIAP, ○: actions for IRSDP only)

Item	First Loan (accomplished)	Second Loan (accomplished)	Third Loan (Items achieved during this term)
Cross-sectoral items	<ul style="list-style-type: none"> <li>⊙ Issuance of Presidential decree on PPP</li> <li>⊙ Establishment of PPP units in the Ministries</li> <li>⊙ Establishment of infrastructure forum (for public-private dialogues)</li> <li>⊙ Establishment of Risk Management unit in Ministry of Finance</li> <li>⊙ Issuance of Presidential decree on land acquisition procedures</li> <li>○ Establishment of regulation on sub lending to local governments</li> </ul>	<ul style="list-style-type: none"> <li>⊙ Preparation for establishment of guaranty/infrastructure fund</li> <li>⊙ Establishment of project development fund (conducting F/S)</li> <li>⊙ Establishment of Ministerial decree for land acquisition guidelines</li> <li>⊙ PPP unit / Risk Management unit activities</li> </ul>	<ul style="list-style-type: none"> <li>⊙ Preparation of draft Ministerial decree for PPP implementation manual</li> <li>⊙ Establishment of land acquisition promotion action plan</li> <li>⊙ Establishment of guarantee/infrastructure funds</li> <li>○ Securing budget for PPP project</li> </ul>
Target areas (transportation, power, oil/gas, telecommunication, water supply and sanitation)	<ul style="list-style-type: none"> <li>⊙ Establishment of long-term development plan for transportation and power sectors</li> <li>⊙ Clarification on IPP power purchasing regulations and reform of taxation/customs</li> <li>⊙ Establishment/starting activities of agencies for road management,</li> </ul>	<ul style="list-style-type: none"> <li>⊙ Formulating a measure to alleviate traffic congestion in metropolitan area (Road improvement)</li> <li>⊙ Issuance of Ministerial decree for no freight vehicle zones</li> <li>⊙ Revision of laws on railway, marine and aerial transportation,</li> </ul>	<ul style="list-style-type: none"> <li>⊙ Revision of laws (land transportation and power) and established government regulations for new laws (including draft preparation)</li> <li>⊙ Improvement of fee/subsidy systems</li> <li>⊙ Mitigation of traffic congestion in metropolitan area</li> </ul>

	<p>communication control, and water development</p> <p>○Issuance of Presidential decree on energy policy</p> <p>○Abolishment of fuel subsidies for industries</p> <p>○Establishment of government regulation for water (fees and private-sector initiatives)</p>	<p>energy, wastes</p> <p>◎Establishment of land acquisition fund for roads</p> <p>◎Issuance of a Presidential decree for improving investment climate in power sector</p> <p>◎Formulation of long-term plans for power and energy</p> <p>○Establishment of ministerial decrees for water supply and waste</p> <p>○Review of functions of local government owned water corporation</p>	<p>○Improvement of railway operation maintenance</p> <p>○Adjustment of domestic oil prices</p> <p>○Review of debt adjustment/functions of local government owned water corporation</p> <p>○Promotion of water supply expansion project</p> <p>○Establishment of ministerial decrees on sewage water and government regulations on water resources</p>
Model projects	<p>◎Selection of 10 PPP model projects (power: 2, transportation: 4, water supply: 3, telecommunication: 1)</p>	<p>◎Bidding for 2 model projects</p> <p>◎Preparation of standard bidding forms and conducting F/S</p>	<p>◎ Start bidding on 3 PPP projects</p> <p>◎Presentation of another 6 PPP projects</p>

(3) Total Program Cost/Loan Amount

Loan amount: 8.291 billion yen (equivalent to 100 million dollars)

(4) Implementation Structure

- 1) Borrower: The Republic of Indonesia
- 2) Executing Agency: National Development Planning Agency (BAPPENAS)

(5) Implementation Schedule

Disbursement is scheduled in March 2011. Program Target period is from 2008 through 2010.

(6) Environmental and Social Consideration, Poverty Reduction, and 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: None in particular
- 3) Promotion of Social Development (Gender Perspective Infectious Disease including HIV/AIDS, Participatory Development, and Considerations for Disabled Persons): None in particular

(7) Coordination with Other Schemes, Donors, etc: Co-financing with ADB (USD 200 million)

(8) Other Important Issues

Development of PPP projects is planned to be supported under PPP Network Enhancement Project (2010-2013, technical cooperation project), based on the policy/system improvement achieved by the series of IRSDPs.

**4. Targeted Outcomes**

Performance Indicators (Operation and Effect Indicators)

Indicator (unit)	Baseline (2004)	Target (2015, 5 years after completion)
Ratio of Infrastructure Investment to GDP (%)	3.2	6.0

**5. External Conditions/Risk Control**

None in particular

**6. Lessons Learned from Past Programs**

Co-financed projects 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, JICA has closely coordinated with ADB in formulating and monitoring this Program through regular joint missions.

**7. Plan for Future Evaluation**

(1) Indicators to be used: Ratio of Infrastructure Investment to GDP (%)

(2) Timing: Five years after completion of the program