

Ex-Ante Evaluation (for Japanese ODA Loan)
Southeast Asia Division 1, Southeast Asia and Pacific Department,
JICA

1. Name of the Program

Country: The Republic of Indonesia

Program: COVID-19 Active Response and Expenditure Support Program Loan

Loan Agreement: August 3, 2020

2. Background and Necessity of the Program

(1) Current State and Issues of the Response to COVID-19 and the Priority of the Program in Indonesia

With the global spread of the novel coronavirus infectious disease (COVID-19), it has spread rapidly in the Republic of Indonesia (hereinafter referred to as “Indonesia”) since the first case was confirmed on March 2, 2020, and by July 20 the number of infected people was 88,214, and the number of deaths was 4,239, both categories were higher than any other countries in Southeast Asia. The Government of Indonesia issued an order on March 31 that enacted large scale social restrictions in an effort to suppress the outbreak, and those measures are still currently being implemented in Jakarta, West Java, and Banten provinces. The spread of COVID-19 has also had a big impact on the Indonesian economy, with the tourist industry, transportation industry and construction industry being hit particularly hard, and the economic growth rate is predicted to decrease from 5% in 2019 to minus 0.3% in 2020 (IMF 2020). In addition, it has been pointed out that this may lead to a doubling of the unemployment rate from 5.3% (2019) to 10.5% (2020) and an increase in the poverty rate from 9.4% (March 2019) to a maximum of 12.8% (Indonesia Ministry of Manpower, ADB 2020).

In response to these economic and social impacts, the Government of Indonesia announced measures for economic and social stabilization in March 2020, which consists of the three main pillars of (i) economic stabilization measures to maintain business activities, (ii) social assistance to the poor and vulnerable, and (iii) measures to strengthen the medical and testing systems. These measures are expected to require funding that could amount to a total of 32.4 billion dollars (2.7% of GDP). According to the revised budget for the FY2020 that was formulated in June 2020, expenditures for the economic and social stabilization measures, along with reduced income from tax revenues and so on, means that the budget deficit is expected to balloon from the originally

budgeted 1.76% of GDP to 6.34% of GDP. Moreover, according to the Government of Indonesia's preliminary calculations, the (gross) funds needed to cover the budget deficit increased by 39.8 billion dollars from 42.4 billion dollars to 82.2 billion dollars, so there is a need to raise an additional 10.9 billion dollars in funds from overseas in particular, and securing the necessary funds for the COVID-19 response is an urgent issue.

Japan and Indonesia have close economic ties through their Economic Partnership Agreement (EPA). Japan is Indonesia's third largest destination for exports (9.1% of total exports, China is first with 13.5%, the U.S. is second with 9.8%), the second largest source of imports (9.5% of total imports) (2018), and the third largest source of direct foreign investment (2019). Many Japanese companies are very interested in expanding their businesses in Indonesia, and according to JBIC's "Survey of Manufacturing Companies' Overseas Business Development" (2019), Indonesia is seen in the medium term (over the next three years) as the fifth most promising country/region for business development (India is first, China is second), with 1,994 Japanese companies operating there (2018). Controlling the spread of infection in Indonesia has a significant effect on preventing the spread of infection within Japan and on Japan's economy, including those Japanese companies who have expanded to Indonesia. Therefore, the application of the newly introduced COVID-19 crisis response emergency support yen loan is a highly significant in supporting the maintenance and recovery of Indonesia's economic activities.

Based on their need for funds, financial support is provided to the Government of Indonesia to aid them in their response to COVID-19 through the "COVID-19 Active Response and Expenditure Support Program Loan" (hereinafter referred to as the "Program") with co-financing from the COVID-19 Active Response and Expenditure Support Program (hereinafter referred to as "CARES"), which is carried out by the Asian Development Bank (ADB).

(2) Japan and JICA's Cooperation Policies in Relation to the COVID-19 Response and the Priority of the Program

Japan's Country Development Cooperation Policy for the Republic of Indonesia (September 2017), identifies help for the establishment of a business and investment environment as part of its priority areas of "support for improving international competitiveness," assisting the raising of the quality of life as part of "support for the realization of a safe and fair society through balanced development," and also improving its ability to deal with infectious disease

problems as part of “support to improve its ability to deal with issues in the Asian region and the international community.” In addition, the JICA Country Analysis Paper for the Republic of Indonesia (June 2018) points out the need for cooperation on the expenditure side in the event of something like a financial crisis. Moreover, the stable and sustainable development of Indonesia, which is situated in a geopolitically important area between the Indian and Pacific Oceans, may help lead to peace and stability in the Indo-Pacific region, thus contributing to ensuring peace and stability in a “free and open Indo-Pacific.” Also, the provision of financial support as an economic measure to help curb the spread of COVID-19, and provide social protection and help to those affected, is also thought to contribute to achieving the SDGs, including Goals 1 (No Poverty), 2 (Zero Hunger), 3 (Good Health and Well-Being), 5 (Gender Equality), 8 (Decent Work and Economic Growth), and 10 (Reduced Inequalities).

(3) Other Donors’ Activity

As part of its “Emergency Response to COVID-19,” the World Bank has already approved Program-for-Results Financing (250 million dollars) to strengthen the public health system and enhance testing and the ability to respond to COVID-19. Also, additional loans for COVID-19 responses have been approved for an additional funding of “First Financial Sector Reform Development Financing” (300 million dollars) and an additional funding of “Social Assistance Reform Program” (400 million dollars).

ADB has approved the provision of a grant for 3 million dollars for procuring medical equipment, in addition to a 20 billion dollar emergency support package for the whole region. They approved CARES for Indonesia (1.5 billion dollar) on April 23, 2020. Furthermore, ADB is currently formulating contingent disaster financing.

Additionally, the Asian Infrastructure Investment Bank has also approved co-financing of CARES (750 million dollars).

3. Program Description

(1) Program Objective

The objective of the Program is to maintain economic activities, protect poor and vulnerable people, and strengthen health and medical service, in response to COVID-19 pandemic in Indonesia, through providing budget support, thereby contributing to the socio-economic stability and the promotion of development efforts.

(2) Program Site/Target Area

The whole country of Indonesia

(3) Program Components

As a measure to stabilize the economy and society that have been impacted by COVID-19, budget support will be given to the Government of Indonesia to formulate and implement the following programs.

Program	Main Components	Required budget amount (In hundred million dollars)
(a) Industry support	The reduction of corporate income tax, improvement of corporate profit and cash flow through special tax cuts for the manufacturing industry, simplification of trading procedures, and relaxation of the financing system for MSMEs.	195
(b) Social assistance	Expansion of the conditional cash transfer program and food assistance program for the poor, and a reduction of electricity tariff for the poor	65
(c) Strengthening healthcare and medical capacity	Purchasing of medical equipment, expansion of national health insurance system (enlarging the target group, application for COVID-19), incentives to medical workers	64

(4) Estimated Program Cost (loan Amount)

Loan amount: 50,000 million yen

(5) Schedule

Starting in July 2020. The program will be completed upon loan disbursement (scheduled for September 2020).

(6) Program Implementation Structure

- 1) Borrower: The Government of the Republic of Indonesia
- 2) Guarantor: None

3) Executing Agency: Fiscal Policy Agency, Ministry of Finance

(7) Cooperation and Sharing of Roles with Other Donors

1) Japan's assistance activities

In coordination with the technical cooperation currently being carried out by the "Investment Promotion Policy Advisor" (2020-2021), proposals are scheduled to be made to help mitigate any effects and maintain the activities of Japanese companies that have expanded into Indonesia. Also, in coordination with the technical cooperation of the "Project for Strengthening Capacity for Early Warning and Response to Infectious Diseases" (2020-2023) surveillance is scheduled to be enhanced in the medium-term for infectious diseases and needed medical and testing equipment will be provided for COVID-19 measures.

2) Other donors' assistance activities

There is co-financing with ADB and other lenders, and monitoring is carried out jointly with ADB and others.

(8) Environmental and Social Consideration/Cross-Cutting Issues/Gender Categorization

1) Environmental and Social Consideration

① Category: C

② Reason for Categorization

The Program is likely to have minimal adverse impact on the environment under the JICA Guidelines for Environmental and Social Considerations, released in April 2010..

2) Cross-cutting Issues: None in particular.

3) Gender Categorization: GI (S) gender informed (Significant)

<Description of activities and reason for categorization> Women make up the majority of the beneficiaries of the cash disbursement program and the food provision program, and there is a plan to monitor the ratio of beneficiaries by gender, so it is classified as a gender integrated program

(9) Other Important Issues

None in particular.

4. Targeted Outcomes

(1) Quantitative Effects

1) Performance Indicators (Operation and Effect Indicator)

Indicator	Baseline (Actual value in January 2020)	Target (* April 2020) (** December 2020)
Poverty rate (%)	12.8 (2020 forecast)	9.4*
Unemployment rate (%)	10.5 (2020 forecast)	5.3*
Number of days it takes for COVID-19 confirmed cases to double	8	16**
Households receiving food assistance program	15,200,000	20,000,000**
Households covered by the conditional cash transfer program	9,200,000	10,000,000**
Establishment of a dedicated fund for COVID-19 prevention and control	-	Yes**
Number of COVID-19 related hospital visitors under the public health insurance scheme	-	10,000**
Number of people tested for COVID-19	20,000 (April 2020)	800,000**
Incentives for medical workers	-	Yes**
Interest subsidy for SMEs	Partial interest subsidy	Full subsidy**
Number of MSMEs receiving support from the government	-	Over 10,000**
6 months of income tax relief for manufacturing workers with an annual income less than 1,400 dollars	-	Yes**

(2) Qualitative Effects

Economic and social stability in Indonesia, and the economic recovery of the manufacturing industry in which Japanese companies are heavily invested (these aspects will be comprehensively assessed using indicators like an improvement in the manufacturing industry's business confidence, restoration of contributions to the GDP growth rate, and recovery of sales for two and four wheeled vehicles).

(3) Internal Rate of Return: Not calculated because the Program is a program

loan.

5. External Factors and Risk Control

- (1) Preconditions: None in particular.
- (2) External Conditions: Global measures to control the spread of COVID-19 are maintained and a rapid deterioration of the situation worldwide is avoided.

6. Lessons Learned from Past Projects

In the ex-post evaluation report of the emergency financial support loan program that JICA launched in the aftermath of the global financial crisis of 2008, it emphasized that the timing of financing is crucial in increasing the effects of one of the objectives of emergency financial support, which is to extend financing in a timely manner to facilitate crisis responses. It adds that the procedures involved in the loan disbursement should ideally be as simple and flexible as possible. The report concludes that the lesson learned was that in light of its objectives, emergency financial support can possibly be improved so that it will be made available as long as it can be confirmed that the recipient government has come up with a fiscal plan (that reflects the demand for funds) and an economic stimulus package to deal with the crisis.

Based on the above, the Program is carried out with co-financing from the ADB's already approved emergency financial support (CARES), without the formulation of a policy matrix, so that it can support the economic and social stabilization measures formulated and implemented by the Government of Indonesia, while ensuring the construction of a monitoring system to check the state of progress, and thus enabling the timely provision of funds.

7. Evaluation Results

This Program is consistent with the developmental issues and policies of Indonesia, as well as Japan's and JICA's cooperation policies and analyses. It also focuses on controlling the spread of COVID-19, extending social protection and relief to people suffering from the impacts, and provides financial support for related economic measures. It is likely to contribute to the achievement of six SDGs: Goal 1 (No Poverty), Goal 2 (Zero Hunger), Goal 3 (Good Health and Well-Being), Goal 5 (Gender Equality), Goal 8 (Decent Work and Economic Growth), and Goal 10 (Reduced Inequalities). Therefore, there is a significant need to support the implementation of the Program.

8. Plan for Future Evaluation

(1) Indicators to be Used

The same as those indicated in section 4.

(2) Timing

Ex-post evaluation : 2 years after program completion

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